REGAL ENTERTAINMENT GROUP
Form 10-K/A
December 04, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 26, 2002

Commission file number: **001-31315**

Regal Entertainment Group

(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**02-0556934** (Internal Revenue Service Employer Identification Number)
9110 East Nichols Avenue, Suite 200 Centennial, CO (Address of Principal Executive Offices)	**80112** (Zip Code)

Registrant's Telephone Number, Including Area Code: **303/792-3600**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $.001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 27, 2002, computed by reference to the closing price for such stock on the New York Stock Exchange on such date, was $511,488,969 (22,248,324 shares at a closing price per share of $22.99).

Shares of Class A common stock outstanding	46,765,646 shares at March 20, 2003
Shares of Class B common stock outstanding	85,287,957 shares at March 20, 2003

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be used in connection with its 2003 Annual Meeting of Stockholders and to be filed within 120 days of December 26, 2002 are incorporated by reference into Part III, Items 10-13, of this report on Form 10-K.

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REGAL ENTERTAINMENT GROUP

EXPLANATORY NOTE

On August 26, 2003, Regal Entertainment Group filed a registration statement on Form S-3 (Commission File No. 333-108212) with the Securities and Exchange Commission (the "Commission"), which was amended on November 14, 2003 and incorporates by reference Regal's annual report on Form 10-K for the fiscal year ended December 26, 2002, quarterly reports on Form 10-Q for the fiscal quarters ended March 27, 2003 and June 26, 2003, and other current reports (or portions thereof) filed by Regal during 2003. The Commission determined to review the registration statement and also has undertaken a review of our periodic reports filed with the Commission identified above. We believe the review of the periodic reports was undertaken as a result of the Commission's normal review process.

As a result of the review of the periodic reports, the Commission requested that Regal supplement or clarify certain textual information in, and include deferred revenues as a separate line item in its consolidated and combined balance sheets for the periods presented in, its annual report on Form 10-K. Following management's discussions with the Commission's staff, Regal agreed to make the suggested changes. Other than the balance sheet change noted above and supplemental or clarifying changes to the notes to the consolidated and combined financial statements included in the annual report on Form 10-K, this amended annual report on Form 10-K/A contains no changes to the consolidated and combined financial statements previously filed with the Commission by Regal.

The information contained in this amended annual report on Form 10-K/A has not been updated to reflect events and circumstances occurring since its original filing. Such matters have been or will be addressed in reports filed with the Commission (other than this amended report) subsequent to the date of the original filing of Regal's annual report on Form 10-K. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Regal has restated in its entirety each item of its originally filed annual report on Form 10-K affected by this amendment.

PART I

The information in this Form 10-K contains certain forward-looking statements, including statements related to trends in the Company's business. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors" and "Business" as well as those discussed elsewhere in this Form 10-K.

Item 1. BUSINESS

THE COMPANY

Regal Entertainment Group, a Delaware corporation organized on March 6, 2002 ("we," "us," "our," the "Company" or "Regal"), is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries and United Artists Theatre Company ("United Artists") and its subsidiaries. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards") and Regal CineMedia Corporation ("Regal CineMedia"). The terms Regal Cinemas, United Artists, Edwards and Regal CineMedia shall be deemed to include the respective subsidiaries of such entities when used in discussions included herein regarding the current operations or assets of such entities.

Regal acquired Regal Cinemas, United Artists, Edwards and Regal CineMedia through a series of transactions on April 12, 2002. For a detailed discussion of the transactions resulting in Regal's acquisition of its subsidiaries, please see Note 1 to the financial statements included in

Part II, Item 8, of this Form 10-K, which is incorporated herein by reference. Each of the theatre circuits operated by Regal Cinemas, United Artists and Edwards emerged from bankruptcy reorganization under Chapter 11 of Title 11 of the United States Code prior to Regal's acquisition of such entities. For a detailed discussion of these bankruptcy proceedings, please see Note 3 to such financial statements, which is incorporated herein by reference. The Company manages its business under one reportable segment theatre exhibition operations.

DESCRIPTION OF BUSINESS

Overview

Regal operates the largest and most geographically diverse theatre circuit in the United States, consisting of 5,663 screens in 524 theatres in 36 states as of December 26, 2002, with over 250 million annual attendees. Regal operates approximately 16% of all screens in the United States. The Company's geographically diverse circuit includes theatres in 9 of the top 10 and 41 of the top 50 U.S. demographic market areas, which includes locations in suburban growth areas. The Company primarily operates multi-screen theatres and has an average of 10.8 screens per location, which is well above the 2002 average of 5.8 screens per location for the North American motion picture exhibition industry. The Company develops, acquires and operates multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets throughout the U.S. The Company seeks to locate each theatre where it will be the sole or leading exhibitor within a particular geographic film-licensing zone. Management believes that at December 26, 2002, approximately 83% of the Company's screens were located in film licensing zones in which the Company was the sole exhibitor. Regal CineMedia was formed during 2002 to focus exclusively on the expansion of ancillary businesses, such as advertising, and the creation of new complementary business lines that leverage the Company's existing asset and customer bases. The Company believes the size, reach and quality of its theatre circuit provide an exceptional platform to realize economies of scale in its theatre operations and capitalize on Regal CineMedia's ancillary revenue opportunities.

Business Strategy

Our business strategy is to continue to enhance our leading position in the motion picture exhibition industry and to create incremental revenue growth and opportunities through Regal CineMedia. Key elements of our strategy include:

Enhancing Operating Efficiencies. We intend to generate operating margins that are among the highest in the industry by continuously attempting to improve our operating efficiency. By combining the operations of Regal Cinemas, United Artists and Edwards, we believe we have taken an important step toward improving our operating efficiency by creating economies of scale and eliminating corporate redundancy. We believe we can further enhance our operating results through the application of best practices from across the combined company.

Pursuing Strategic Acquisitions. We believe that our acquisition experience and the financial flexibility provided by our conservative capital structure position us well to execute future acquisitions. We may selectively pursue theatre acquisitions, such as the Hoyts Cinemas Corporation acquisition described below under "Recent Developments", that enhance our market position and asset base and improve our consolidated operating results. In addition, we may pursue acquisitions that strengthen our ancillary business by broadening our service offerings.

Creating a Digital Network to Generate Ancillary Revenues. We are generating additional revenue growth by deploying the equipment necessary to create our Digital Content Network ("DCN"), the largest digital video and communications network among domestic exhibitors. We intend to use the DCN to generate additional revenue from on-screen and in-lobby advertising, the distribution of entertainment, sports, music and other digital content and corporate communications services, conferencing, product introductions and distance learning. We believe the technical capabilities and reach of the DCN will enhance our advertising and promotions business by providing a more efficient purchasing process for advertisers and by streamlining the delivery of advertising, thus allowing for more targeted marketing. Additionally, by providing high quality pre-show programs and improved projection and sound capabilities, the DCN will provide a better entertainment experience for our patrons. The DCN will also enable us to leverage our assets more efficiently during non-peak periods from the rental of auditoriums on a single site and networked basis for seminars, business conferencing, distance learning, and other business meetings and from the distribution of alternative digital programming in the sports, music, entertainment, and educational categories.

Pursuing Selective Growth Opportunities. We intend to selectively pursue theatre and screen expansion opportunities that meet our strategic and financial return criteria. We also intend to enhance our operations by selectively expanding and upgrading existing properties in prime locations. We have combined the capital spending programs of Regal Cinemas, United Artists and Edwards under one management team to maximize our return on investment by enabling us to make strategic capital expenditures that we believe will provide the highest returns among our theatre portfolio.

Competitive Strengths

We believe that the following competitive strengths position the Company to capitalize on future growth opportunities:

Industry Leader. We are the largest domestic motion picture exhibitor with nearly twice as many screens as our nearest competitor. We operate 5,663 screens in 524 theatres in 36 states across the nation. We believe that the quality and size of our theatre circuit is a significant competitive advantage for negotiating attractive concession contracts and generating economies of scale. We believe that our market leadership positions us to capitalize on favorable attendance trends, attractive consolidation opportunities and ancillary businesses.

Superior Management Drives Strong Operating Margins. We have developed a proven operating philosophy focused on efficient operations and strict cost controls at both the corporate and theatre levels. At the corporate level, we are able to leverage our size and operational expertise to achieve economies of scale in purchasing and marketing functions. We have developed an efficient purchasing and distribution supply chain that generates favorable concession margins. At the theatre level, management devotes significant attention to cost controls through the use of detailed management reports and performance-based compensation programs to encourage theatre managers to practice effective cost control. For fiscal 2002, the Company reported total revenues, operating income and net income of $2,140.2 million, $283.6 million and $117.2 million, respectively. In addition, the Company generated $373.2 million of cash flows from operations.

Healthy Balance Sheet and Strong Cash Flow Generation. We believe that we have one of the most conservative capital structures among reporting motion pictures exhibitors with stockholders' equity of $1,270.8 million as of December 26, 2002. Regal Cinemas, Inc., United Artists and Edwards have invested approximately $1.9 billion in capital expenditures since 1997 to expand and upgrade their theatre circuits. As a result, we do not expect to require major capital reinvestments in the near term to maintain our operations in excess of those included in our capital spending programs. By combining our capital structure with our operating margins and limited need to make maintenance capital expenditures, we believe that we will generate significant cash flow from operations to take advantage of future growth opportunities.

Proven Acquisition and Integration Expertise. We have significant experience identifying, completing and integrating acquisitions of theatre circuits. We have demonstrated our ability to enhance revenues and realize operating efficiencies through the successful acquisition and integration of 13 theatre circuits since 1995. We have generally achieved immediate cost savings at acquired theatres and improved their profitability through the application of our consolidated operating functions and key supplier contracts.

Reorganizations Formed a Stronger Circuit with More Flexibility. Our theatre operations completed reorganizations that have enabled us to improve our asset base and profitability. By selectively closing under-performing locations and negotiating rent reductions and lease termination rights, we have enhanced our operational flexibility and created competitive advantages over major theatre operators that have not entered or completed a bankruptcy reorganization process. The reorganization process did, however, result in significant claims being asserted against Edwards and Regal Cinemas, Inc., which we continue to address. Several of those claims may result in significant payments to the claimants. At December 26, 2002, the Company had accrued approximately $23.6 million for the estimated costs to resolve these bankruptcy claims. To the extent these claims are allowed, they will be funded with cash on hand, cash flow from operations or borrowings under Regal Cinemas' revolving credit facility. In addition to these sources of funding, with respect to allowed Edwards claims, they may also be funded from restricted cash that has been set aside, and, if the allowed Edwards claims exceed $55 million, from contributions by The Anschutz Corporation and its subsidiaries ("Anschutz") and OCM Principal Opportunities Fund II, L.P. and its subsidiaries ("Oaktree's Principal Activities Group"). The timing of payment on these claims will depend upon the resolution of these claims.

Quality Theatre Portfolio. Regal Cinemas, Inc., United Artists and Edwards have invested approximately $1.9 billion in capital expenditures since 1997. As a result, we believe that we operate one of the most modern theatre circuits among major motion picture exhibitors. Approximately 61% of our screens are located in theatres featuring stadium seating. Approximately 76% of our screens are located in theatres with 10 or more screens. Our theatres have an average of 10.8 screens per location, which is well above the 2002 average of 5.8 screens per location for the North American motion picture exhibition industry.

Leading Access to First-Run Films. Approximately 83% of our screens are located in film licensing zones in which we are the sole exhibitor. Being the sole exhibitor in a film licensing zone provides us with access to all films distributed by major distributors and eliminates our need to compete with other exhibitors for films in that zone. As the sole exhibitor in a particular zone, we can exhibit all commercially successful films on our screens, subject to a successful negotiation with the distributor, and have the ability to compete for attendance generated from commercially popular films.

Distinctive Opportunity in Ancillary Revenues. We are the largest and most geographically diverse theatre circuit in the nation with over 250 million annual attendees and a nationwide presence that includes 9 of the top 10 and 23 of the top 25 U.S. demographic market areas. We believe our asset base, when combined with our DCN, provides an attractive platform for advertisers and entertainment, sports, music and other content providers to reach a desirable customer base and for businesses to use for corporate communications services, conferencing, product introductions, and distance learning. We believe we will be able to generate additional revenues from digital on-screen and in-lobby advertising, the distribution of entertainment, sports, music and other digital content, and by providing corporate communications services. Our subsidiary, Regal CineMedia, focuses exclusively on leveraging our theatre assets with digital distribution and projection and other new technology to increase our revenues from these complementary lines of business.

Dividend Policy

We believe that paying dividends on our shares of common stock is important to our stockholders and differentiates us from our competitors. To that end, the Company paid on December 13, 2002 our first cash dividend of $0.15 per share of Class A and Class B common stock, or approximately $19.8 million in the aggregate, to our stockholders of record on November 26, 2002, and declared on February 3, 2003 our second cash dividend of $0.15 per share of Class A and Class B common stock, payable on March 14, 2003, to our stockholders of record on February 25, 2003. Dividends are considered quarterly and may be paid only when approved by our board of directors.

RECENT DEVELOPMENTS

On February 3, 2003, the Company entered into a definitive stock purchase agreement pursuant to which the Company agreed to acquire certain assets of Hoyts Cinemas Corporation ("Hoyts Cinemas") for a combination of cash of approximately $100 million and Class A common stock (ranging from 4,308,390 to 4,761,905 shares based on the 14 trading days ending on the second trading day prior to closing of the transaction) and the assumption of certain capital leases. Under the stock purchase agreement, Regal expects to acquire 52 of the 97 Hoyts Cinemas theatres representing 554 screens located in 10 states in the Northeastern United States. Regal anticipates closing the transaction during the first half of 2003. There can be no assurance, however, that this transaction will be completed when anticipated or at all.

INDUSTRY OVERVIEW

The domestic motion picture exhibition industry has historically maintained steady growth in revenues and attendance. Since 1965, total box office revenues have grown at a compound annual growth rate of approximately 6% and annual attendance grew to approximately 1.6 billion attendees in 2002. The industry has been relatively unaffected by downturns in the economic cycle, with total box office revenues and attendance growing in three of the last five recessions. In 2002, total box office revenues increased for the eleventh consecutive year, increasing by approximately 13% to $9.5 billion, and attendance grew approximately 9% to 1.6 billion attendees.

During the late 1990's, the domestic motion picture exhibition industry underwent a period of extraordinary new theatre construction and the upgrade of older theatres. From 1996 to 1999, the number of screens increased at a compound annual growth rate of approximately 8%, which was more than double the industry's screen growth rate of approximately 3.5% from 1965 to 1995. The aggressive building strategies undertaken by exhibitors resulted in intensified competition in once stable markets and rendered many older theatres obsolete more rapidly than anticipated. This effect, together with the fact that many older theatres were under long-term, non-cancelable leases, created an oversupply of screens, which caused both attendance per screen and revenue and operating income per screen to decline. Most major exhibitors used extensive debt financing to fund their expansion efforts and experienced significant financial challenges in 1999 and 2000.

In 2000 and 2001, substantially all of the major exhibitors of motion pictures reduced their expansion plans and implemented screen rationalization plans to close under-performing theatres. During this period, the number of screens declined by approximately 1,800, the first screen decline since 1963. This screen count rationalization has benefited exhibitors as patrons of closed theatres have migrated to remaining theatres, thereby increasing industry-wide attendance per screen and operating efficiencies.

The recent industry expansion was primarily driven by major exhibitors upgrading their asset bases to an attractive megaplex format that typically included 10 or more screens per theatre and adding enhanced features such as stadium seating, improved projection quality and superior sound systems. From 1996 to 1999, the five largest motion picture exhibitors spent over $4.1 billion on capital expenditures to expand and upgrade their theatre circuits. As a result of the extensive capital investment over the last several years, we believe future capital expenditures needed to maintain these modern theatres will be modest.

We believe that another evolution of theatre formats beyond the current megaplex is unlikely to occur in the foreseeable future. We believe theatres larger than the current 10 to 18 screen megaplex are not able to generate attractive returns in most locations because of the substantial market suitability requirements to generate a level of profitability similar to the current megaplex format. In addition, for the foreseeable future, we do not believe that additional major amenities will be required to meaningfully enhance the moviegoing experience. Consequently, we believe major exhibitors have reduced capital spending and the rate of new screen growth substantially.

INDUSTRY TRENDS

We believe that the U.S. motion picture exhibition industry will benefit from the following trends:

Increased Marketing of New Releases by Studios. Movie studios have increased marketing expenditures per new film at a compound annual growth rate of approximately 8% from 1995 to 2002. Because domestic movie theatres are the primary distribution channel for domestic film releases, the theatrical success of a film is often the most important factor in establishing its value in other film distribution channels, including home video, cable television, broadcast television and international releases. We believe that movie studios have placed an increased emphasis on theatrical success because these secondary distribution channels represent important and growing sources of additional revenues.

Affordable and Increasingly Attractive Form of Entertainment. We believe that patrons are attending movies more frequently because movie-going is convenient, affordable and attractively priced relative to other forms of out-of-home entertainment. The average price per patron continues to compare favorably to other out-of-home entertainment alternatives such as concerts and sporting events. Since 1992, average movie ticket prices have increased at a compound annual growth rate of only 3%, while ticket prices for professional sporting events and concerts have increased at approximately three times that rate. Over the same time period, per capita movie attendance has grown from 4.6 to 5.7 times per year.

Ongoing Screen Rationalization. In 2000 and 2001, substantially all of the major motion picture exhibitors reduced their expansion plans and implemented screen rationalization programs to close under-performing theatres. This screen count rationalization benefits exhibitors as patrons of closed theatres migrate to remaining theatres, thereby increasing industry-wide attendance per screen and operating efficiencies.

Model Facilities Lower Future Capital Requirements. We believe that the modern, 10 to 18 screen megaplex theatre is the appropriate facility for most markets. Over the last several years, major exhibitors have spent substantial capital upgrading their asset bases, including the development of the megaplex format and introducing enhanced amenities such as stadium seating and digital sound. Given the substantial capital spent on theatre circuit expansion and facilities upgrades, we believe that major exhibitors have reduced their capital spending for new theatre construction or further upgrades.

Increasing Appeal of a Diversity of Films. Box office revenues are increasingly diversified among a number of strong movies rather than concentrated on a few major "hits." Box office revenues from the top 10 grossing movies as a percentage of annual total box office revenues have declined from an average of 29% during 1990 through 1992 to an average of 26% during 2000 through 2002. This increased appeal in the breadth of films benefits exhibitors by expanding the demographic base of moviegoers and generating greater attendance at a wider variety of movies as opposed to attracting patrons to only a few major releases.

Extension of Movie Release Calendar Reduces Seasonality. Distributors have increasingly staggered new releases over more weekends as opposed to opening multiple movies on the same weekend or saving major releases for only a few holiday weekends. This trend has reduced the seasonality of box office revenues by spreading attendance over an extended period of time, which we believe benefits exhibitors by increasing admissions and concessions revenues.

THEATRE OPERATIONS

We operate the largest theatre circuit in the United States with 5,663 screens in 524 theatres in 36 states as of December 26, 2002. We operate theatres in 9 of the top 10 and 41 of the top 50 U.S. demographic market areas, which include locations in suburban growth areas. We target prime locations with excellent access to large, high patron-traffic areas. We operate our theatre circuit using our brands through our wholly owned subsidiaries, Regal Cinemas, Edwards, and United Artists.

We primarily operate multi-screen theatres. Our multi-screen theatre complexes typically contain 10 to 18 screens, each with auditoriums ranging from 100 to 500 seats. As a result, our theatres appeal to a diverse group of patrons because we offer a wide selection of films and convenient show times. In addition, many of our theatres feature modern amenities such as wall-to-wall screens, digital stereo surround-sound, multi-station concessions stands, computerized ticketing systems, plush stadium seating with cup holders and retractable armrests, neon-enhanced interiors and exteriors and video game areas adjacent to the theatre lobby.

Our modern, multi-screen theatres are designed to increase profitability by optimizing revenues per square foot and reducing the cost per square foot of operation. We vary auditorium seating capacities within the same theatre, allowing us to exhibit films on a more cost effective basis for a longer period of time by shifting films to smaller auditoriums to meet changing attendance levels. In addition, we realize significant operating efficiencies by having common box office, concessions, projection, lobby and restroom facilities, which enables us to spread some of our costs, such as payroll, advertising and rent, over a higher revenue base. We stagger movie show times to reduce staffing requirements and lobby congestion and to provide more desirable parking and traffic flow patterns. In addition, we believe that operating a theatre circuit consisting primarily of modern theatres enhances our ability to attract patrons.

The following table details the number of locations and theatre screens in our theatre circuit ranked by the number of screens in each state as of December 26, 2002:

State	Locations	Number of Screens	State	Locations	Number of Screens
California	89	952	Louisiana	11	83
Florida	49	665	Indiana	7	82
New York	35	370	Maryland	6	68
Texas	27	328	Illinois	4	67
Washington	36	326	Minnesota	6	64
Ohio	25	296	Idaho	7	63
Pennsylvania	26	286	New Mexico	8	58
Virginia	24	268	Alaska	5	43
Georgia	20	263	Michigan	4	41
Oregon	26	211	Arkansas	4	37
Tennessee	13	154	Delaware	2	33
New Jersey	12	148	Oklahoma	2	26
Colorado	14	118	Arizona	2	21
Alabama	9	118	Missouri	1	18
North Carolina	14	111	Kentucky	1	16
Nevada	9	110	Wisconsin	1	16
Mississippi	15	100	West Virginia	1	12
South Carolina	8	89	Connecticut	1	2

In connection with the combination of our three theatre circuits, we have implemented best management practices across all of our theatres, including daily, weekly and monthly management reports generated for each individual theatre, as well as maintaining active communication between the theatres, divisional management and corporate management. We use these management reports and communications to closely monitor admissions and concessions revenues as well as accounting, payroll and workforce information necessary to manage our theatre operations effectively and efficiently.

We seek experienced theatre managers and require new theatre managers to complete a comprehensive training program within the theatres and at the "Regal University," which is held at Regal Cinemas' Corporate Headquarters. The program is designed to encompass all phases of theatre operations, including our operating philosophy, policies, procedures and standards. In addition, we have an incentive compensation program for theatre-level management that rewards theatre managers for controlling operating expenses while complying with our operating standards.

In addition, we have implemented quality assurance programs in all of our theatres to maintain clean, comfortable and modern facilities. To maintain quality and consistency within our theatre circuit, district and regional managers regularly inspect each theatre. We also operate a "mystery shopper" program, which involves unannounced visits by unidentified customers who report on the quality of service, film presentation and cleanliness at individual theatres.

REGAL CINEMEDIA OPERATIONS

Regal CineMedia focuses on the expansion of ancillary businesses, such as advertising, and the creation of new complementary business lines that utilize our existing theatre operating personnel and leverage our existing asset and customer bases. We have committed resources and dedicated a management team with experience in these new business areas to focus exclusively on these opportunities and on emerging technologies such as digital advertising, business meetings, and alternative content distribution. We are investing in the equipment necessary to create the DCN, the largest digital network among U.S. theatre operators. While digital projection technologies required to display motion pictures in our theatres are not yet commercially viable, lower-cost digital video and communications technology is available to expand the revenue generating capabilities and opportunities. During 2002, 1,919 screens within 159 theatres in 15 markets were deployed as part of this digital network. In addition, the DCN is connected to 575 plasma screens that have been installed in the lobbies and other high-traffic locations within these theatres to provide additional advertising reach and exposure. We intend to expand the DCN to approximately 4,500 screens in 45 markets (approximately 80% of the total screens) in approximately 375 theatres by the end of 2003. The total investment in the DCN is expected to be approximately $67 million, of which we have invested approximately $28.5 million as of December 26, 2002. We believe that this digital network will enable us to more effectively capitalize on ancillary revenue opportunities.

In-Theatre Advertising. We believe that our theatres and DCN provide an attractive platform for advertisers by allowing them to target a large and desirable customer base and reduce the cost of in-theatre advertising. We believe on-screen and in-lobby advertising allows advertisers to achieve high impact appeal due to the captive nature of the movie audience and the sound and projection capabilities of our theatres. On April 12, 2002, in connection with the exchange transaction described in Note 1 to the accompanying financial statements, Regal CineMedia acquired the assets of Next Generation Network, Inc. ("NGN") to use in implementing Regal CineMedia's business plan. We have modified and upgraded the distribution software acquired from NGN to distribute digital advertising content throughout our theatres and to other sites. The addition of digital video and communications technologies will further improve the quality of our on-screen advertising business, marketing and promotions business by replacing our slide projectors and 35mm "rolling stock" advertising and making the delivery of advertising more time and cost efficient for advertisers and by allowing for more targeted marketing. Prior to the deployment of the DCN, our in-theatre advertising programs consisted of rolling stock commercials, intermission slides, intermission music, lobby monitor advertising and entertainment, coupon distribution and customer sampling. Within the DCN, the rolling stock commercials, intermission slides, and intermission music will be replaced by a "digital pre-show" which includes, in addition to high quality advertising, segments of entertaining and informative content provided by national media companies such as NBC, Turner Broadcasting, Universal Entertainment, and the "How Stuff Works" publishing firm (collectively the "Content Partners"). In addition to the long-term marketing and programming relationships created with the Content Partners, we have strong business relationships with many national advertisers, such as the Coca-Cola Company, and with a leading Internet ticket provider, Fandango. Advertising revenues generally generate high margins because they utilize our existing theatre assets and personnel. In January 2003, the new digital pre show that has been branded "The Twenty" was launched on approximately 2,000 screens in 15 markets.

Regal CineMeetings and Events. Previously known as United Artists' Satellite Theatre Network, Regal CineMeetings and Events rents theatres on an individual or networked basis for seminars, corporate training, business meetings, distance learning or business communication uses, product and customer research and other entertainment uses such as concerts and movie premieres. By utilizing the DCN and telephone networks, we can provide a video conferencing network and two-way audio broadcasting and teleconferencing services. Theatre rentals allow us to utilize our assets more effectively during non-peak periods, such as weekday mornings.

Other Ancillary Business Opportunities. We believe that we will generate additional revenues in the future as we continue to expand our ancillary business activities. These activities are currently focused on creating a new kind of national digital distribution network for the distribution of sports, music, entertainment, education and other forms of digital content to paying customers as well as for promotional purposes. As the new programming "Channels" are developed they will be included as one of the product offerings of the Regal CineMedia and Events business units. In addition, Regal CineMedia will work closely with our theatre operations group to leverage new technologies to create a more interactive relationship with patrons, to improve the marketing information we provide advertisers and thus improve the local marketing of motion pictures and provide a better overall movie-going experience for our customers.

Group Advance Ticket and Gift Certificate Sales. Regal CineMedia manages the sale of the Company's advance tickets sold to corporations and groups and the sale of gift certificates to individuals and groups. Cross-selling and bundling strategies across the advertising sales and other Regal CineMedia sales groups and across various of the Regal CineMedia product offerings provides many sales and operational cost benefits.

FILM DISTRIBUTION

Domestic movie theatres are the primary initial distribution channel for domestic film releases. The theatrical success of a film is often the most important factor in establishing its value in other film distribution channels. Motion pictures are generally made available through several alternative distribution methods after the theatrical release date, including home video and DVD, cable television, broadcast television, international distribution and satellite and pay-per-view services. A strong opening run at the theatre can establish a film's success and substantiate the film's revenue potential for both domestic and international distribution channels. For example, the value of home video and pay cable distribution agreements frequently depends on the success of a film's theatrical release. Furthermore, studios' revenue-sharing percentage and ability to control the choice of distribution channels generally declines as a film moves further from its theatrical release. As the primary distribution window for the public's evaluation of films, domestic theatrical distribution remains the cornerstone of a film's overall financial success.

The development of additional distribution channels has given motion picture producers the ability to generate a greater portion of a film's revenues through channels other than theatrical release. This increased revenue potential after a film's initial theatrical release has enabled major studios and some independent producers to increase the budgets for film production and advertising. The total cost of producing a film averaged approximately $58.8 million in 2002 compared with approximately $28.9 million in 1992, while the average cost to advertise and promote a film averaged approximately $30.6 million in 2002 compared with approximately $11.5 million in 1992.

FILM LICENSING

Evaluation of Film. We license films on a film-by-film and theatre-by-theatre basis by negotiating directly with film distributors. Prior to negotiating for a film license, we evaluate the prospects for upcoming films. Criteria we consider for each film include cast, director, plot, performance of similar films, estimated film rental costs and expected rating from the Motion Picture Association of America. Successful licensing depends greatly upon the exhibitor's knowledge of trends and historical film preferences of the residents in markets served by each theatre, as well as on the availability of commercially successful motion pictures.

Access to Film Product. Films are licensed from film distributors owned by major film production companies and from independent film distributors that generally distribute films for smaller production companies. Film distributors typically establish geographic film licensing zones and allocate each available film to one theatre within that zone. Film licensing zones generally encompass a radius of three to five miles in metropolitan and suburban markets, depending primarily upon population density.

In film licensing zones where we are the sole exhibitor, we obtain film licenses by selecting a film from among those films being offered and negotiating directly with the distributor. In zones where there is competition, a distributor will either allocate films among the exhibitors in the zone, or, on occasion, may require the exhibitors in the zone to bid for a film. When films are licensed under the allocation process, a distributor will select an exhibitor who then negotiates film rental terms directly with the distributor. We currently do not bid for films in any of our markets.

Film Rental Fees. Film licenses typically specify rental fees based on the higher of a gross receipts formula or a theatre admissions revenues formula. Under a gross receipts formula, the distributor receives a specified percentage of box office receipts, with the percentage declining over the term of the film's run. Under a theatre admissions revenues formula, the distributor receives a specified percentage of the excess of admissions revenues over a negotiated allowance for theatre expenses. Although not specifically contemplated by the provisions of film licenses, rental fees actually paid by us are in some circumstances adjusted subsequent to exhibition in relation to the commercial success of a film in a process known as "settlement."

Duration of Film Licenses. The duration of our film licenses are negotiated with our distributors on a case-by-case basis. The terms of our license agreements depend on performance of each film. Marketable movies that are expected to have high box office admission revenues will generally have longer license terms than movies with more uncertain performance and popularity.

Relationship with Distributors. Many distributors provide quality first-run movies to the motion picture exhibition industry. However, according to industry reports, ten distributors accounted for approximately 94% of admissions revenues and 49 of the top 50 grossing films during 2002. While one motion picture distributor can dominate any given weekend's business, no single distributor dominates the market for an annual period. We license films from each of the major distributors and believe that our relationships with these distributors are good. From year to year, the revenues attributable to individual distributors will vary widely depending upon the number and popularity of films that each one distributes.

CONCESSIONS

In addition to box office admissions revenues, we generated approximately 27.5% of our total revenues from concessions sales during 2002. We emphasize prominent and appealing concession stations designed for rapid and efficient service. We continually seek to increase concessions sales by optimizing product mix, introducing special promotions from time to time and training employees to cross-sell products. We have favorable concession supply contracts and have developed an efficient concession purchasing and distribution supply chain. Our management negotiates directly with manufacturers for many of our concession items to obtain competitive prices and to ensure adequate supplies.

COMPETITION

The motion picture industry is highly competitive. Motion picture exhibitors generally compete on the basis of the following competitive factors:

- ability to secure favorable licensing terms;
- seating capacity, location and reputation of their theatres;
- quality of projection and sound systems at their theatres; and
- ability and willingness to promote the films they are showing.

Our competitors vary substantially in size, from small independent exhibitors to large national chains. As a result, our theatres are subject to varying degrees of competition in the regions in which they operate. Our competitors, including newly established motion picture exhibitors, may build new theatres or screens in areas in which we operate, which may result in increased competition and excess capacity in those areas. If this occurs, it may have an adverse effect on our business and results of operations. As the largest motion picture exhibitor, however, we believe that we will be able to generate economies of scale and operating efficiencies that will give us a competitive advantage over many of our competitors.

We also compete with other motion picture distribution channels, including home video, cable television, broadcast television and satellite and pay-per-view services. Other new technologies (such as video on demand) could also have an adverse effect on our business and results of operations. In addition, we compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants. In an effort to offset the competitive effects of these alternative distribution channels and forms of entertainment on our primary business, we are continuing to develop our ancillary revenues through our digital advertising and corporate communications services, and through our other Regal CineMedia product offerings.

In addition to the motion picture industry, we also operate in other industries as a result of our ancillary business activities. These industries currently include advertising services and business communications services. Our advertising services compete with other forms of marketing media, including television, radio and billboards, as well as advertising in shopping centers, airports, stadiums, supermarkets and public transportation, including taxis, trains and buses. While we believe that in-theatre advertising and promotions are becoming increasingly common, advertisers may choose alternative methods of conveying their messages. If this occurs, it may have an adverse effect on our ancillary business activities and may affect our results of operations.

Our auditorium rental and business communications services compete with other forms of large-scale venues, including hotel conference centers, concert halls, other public meeting venues and in-house communications equipment. We believe that our combination of size, geographic distribution and advanced technology offer customers a unique and effective venue for events such as employee meetings and product demonstrations.

We believe that we have enhanced our operational flexibility and created competitive advantages over other major theatre operators who have not entered or completed a bankruptcy reorganization process.

MARKETING AND ADVERTISING

Currently, film distributors organize and finance multimedia advertising campaigns for major film releases. To market our theatres, we utilize advertisements, including radio advertising, and movie schedules published in newspapers and over the Internet informing our patrons of film selections and show times. Newspaper advertisements are typically displayed in a single grouping for all of our theatres located in a newspaper's circulation area. In some of our markets we employ special marketing programs for specific films and concessions items.

In addition, we seek to develop patron loyalty through a number of marketing programs such as free summer children's film series, a frequent moviegoer promotional programs, named the Regal Crown Club, cross-promotional ticket redemptions and promotions within local communities. We currently offer these programs only in selected markets. We plan to use these programs in markets where we believe patron loyalty can be further enhanced, and we will continue to evaluate our markets on a case-by-case basis to determine the suitability of these programs in individual regions.

MANAGEMENT INFORMATION SYSTEMS

We make extensive use of information technology in all areas of our business. We provide many ways for our customers to purchase tickets, ranging from the point of sale terminals in each theatre box office, to the self-service kiosks to Internet-based ticketing. We use our information technology systems to manage all aspects of our business. Our point of sale systems enable us to monitor cash transactions and detect fraud and inventory shrinkage, while capturing information about sales and attendance needed for film booking and settlement. Our scheduling systems support the coordination needed to properly allocate our auditoriums between film showings and Regal CineMeetings events while also ensuring that each movie audience views the intended set of advertisements and newspaper advertisements provide the correct show starting times. Our continuing investment in information technology has enabled our management team to operate our theatres efficiently.

SEASONALITY

Our revenues are usually seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, studios release the most marketable motion pictures during the summer and the holiday season. The unexpected emergence of a hit film during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or any other quarter. The seasonality of motion picture exhibition, however, has become less pronounced in recent years as studios have begun to release major motion pictures somewhat more evenly throughout the year.

EMPLOYEES

As of December 26, 2002, we employed approximately 22,797 persons. Some of our facilities employ union projectionists. The Company's expansion into new markets may increase the number of employees represented by unions. The Company considers its employee relations to be good.

REGULATION

The distribution of motion pictures is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Consent decrees effectively require major film distributors to offer and license films to exhibitors, including us, on a film-by-film and theatre-by-theatre basis. Consequently, exhibitors cannot assure themselves of a supply of films by entering into long-term arrangements with major distributors, but must negotiate for licenses on a film-by-film and theatre-by-theatre basis.

Our theatres must comply with Title III of the Americans with Disabilities Act of 1990 (the "ADA") to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires that public accommodations "reasonably accommodate" individuals with disabilities and that new construction or alterations made to "commercial facilities" conform to accessibility guidelines unless "structurally impracticable" for new construction or technically infeasible for alterations. Non-compliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants and additional capital expenditures to remedy such non-compliance. United Artists and several of its subsidiaries are subject to a consent decree arising from a lawsuit captioned Connie Arnold et. al. v. United Artists Theatre Circuit, Inc. et. al. The plaintiffs alleged nationwide violations with the ADA for failure to remove barriers to access at existing theatres in a timely manner. In 1996, the parties involved in the case entered into a settlement agreement in which United Artists agreed to remove physical barriers to access at its theatres prior to July 2001. In January 2001, the settlement agreement was amended to, among other things, extend the completion date for barrier removal to July 2006 and require minimum expenditures of $250,000 a year for barrier removal.

We believe that we are in substantial compliance with all current applicable regulations relating to accommodations for the disabled. We intend to comply with future regulations in this regard, and except as set forth above, we do not currently anticipate that compliance will require us to expend substantial funds. Our theatre operations are also subject to federal, state and local laws governing such matters as wages, working conditions, citizenship and health and sanitation requirements. We believe that we are in substantial compliance with all of such laws.

PART II

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Regal and United Artists and the notes thereto included elsewhere in this report on Form 10-K.

Overview

We are the largest domestic motion picture exhibitor with 5,663 screens in 524 theatres in 36 states as of December 26, 2002. We conduct our operations primarily through our wholly owned subsidiaries, Regal Cinemas, United Artists, Edwards and Regal CineMedia.

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists and Edwards upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) and on September 29, 2001 of the Edwards Bankrupt Entities (as defined in Note 1 to the accompanying financial statements). On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. when the Regal Cinemas, Inc. Bankrupt Entities described in Note 1 to the accompanying financial statements emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in Regal Cinemas, Inc. for a controlling equity interest in Regal Cinemas immediately thereafter. Regal Cinemas, Inc. is a wholly owned subsidiary of Regal Cinemas. In addition, Regal CineMedia was formed in February 2002 to focus on the development of ancillary revenues and became our wholly owned subsidiary on April 12, 2002. On April 17, 2002, Regal

Cinemas, Inc. acquired all of the outstanding capital stock of Edwards and, as a result, Edwards became a wholly owned subsidiary of Regal Cinemas, Inc.

The Company's financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas. These controlling equity interests have been recorded in the Company's financial statements at Anschutz's combined historical cost basis. Accordingly, the Company's financial statements for the fiscal period ended January 3, 2002 (the "Fiscal 2001 Period") reflect only the results of operations of United Artists from March 1, 2001 (approximately 10 months) and Edwards from September 30, 2001 to December 27, 2001 (approximately 3 months). The Company's financial statements for the fiscal year ended December 26, 2002 (the "Fiscal 2002 Period") include the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Edwards from December 28, 2001 (a full fiscal year), and Regal Cinemas from January 24, 2002 (approximately 11 months).

As a result of the screen closures in 2000 and 2001 and due to our belief that the major exhibitors have reduced capital spending and the rate of new screen growth, the impact of overcapacity of screens in the industry has been mitigated. The existing overcapacity in the industry screen count is not expected to have a material impact on our results of operations.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K. Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet as well as the reported amounts of revenues and expenses during the reporting period. We routinely make estimates and judgments about the carrying value of our assets and liabilities that are not readily apparent from other sources. The Company evaluates and modifies such estimates and assumptions on an ongoing basis, including but not limited to those related to film costs, property and equipment, goodwill, income taxes and reorganization and purchase accounting. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact and any associated risks related to estimates, assumptions, and accounting policies are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions, and accounting policies affect the Company's reported and expected results.

The Company believes the following accounting policies are critical to its business operations and the understanding of its results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements:

The Company estimates its film cost expense and related film cost payable based on management's best estimate of the ultimate settlement of the film costs with the distributors. Film costs and the related film costs payable are adjusted to the final film settlement in the period that the Company settles with the distributors. Actual film costs and film costs payable could differ from those estimates.

We depreciate and amortize the components of our property and equipment on a straight-line basis over the estimated useful lives of the assets. The estimates of the assets' useful lives require our judgment and our knowledge of the assets being depreciated and amortized. When necessary, the assets' useful lives are revised and the impact on depreciation and amortization is recognized on a prospective basis. Actual economic lives may differ materially from these estimates. In addition, the Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable. When the future undiscounted cash flows of the operations to which the assets relate do not exceed the carrying value of the asset, such assets are written down to fair value.

The Company adopted SFAS 142, "Goodwill and Other Intangible Assets" in 2002. SFAS 142 specifies that goodwill and indefinite-lived intangible assets will no longer be amortized but instead will be subject to an annual impairment test. Based on an impairment test conducted during the fourth quarter of 2002, the Company was not required to record a charge for goodwill impairment. The Company will perform a fourth-quarter goodwill impairment test on an annual basis. In assessing the recoverability of the goodwill, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. In addition, income tax rules and regulations are subject to interpretation and require judgment by the Company and may be challenged by the tax authorities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized. The Company expects that certain deferred income tax assets are not more likely than not to be recovered and, therefore, has established a valuation allowance. The Company reassesses the need for such allowance on an ongoing basis. Should the

Company ultimately realize certain tax assets with a valuation allowance that relate to pre-acquisition periods, goodwill would be reduced. The Company believes that its provision for income taxes is adequate pertaining to any assessments from the tax authorities.

We applied the principles of purchase and reorganization accounting when recording the acquisitions of controlling equity interests by Anschutz and the exchange of stock for minority interests and the emergence from bankruptcy of the theatre companies. These accounting principles require that we estimate the fair value of the individual assets and liabilities, including estimates of bankruptcy-related claims. The estimation of the fair value of the assets and liabilities involves a number of judgments and estimates that could differ materially from the actual amounts.

Basis of Presentation

The Company generates revenues primarily from admissions and concession sales. Additional revenues are generated by vendor marketing programs and on-screen advertisements and rental of theatres for business meetings and other events by Regal CineMedia and electronic video games located adjacent to the lobbies of certain of the Company's theatres. Film rental costs depend on the popularity of a film and the length of time since the film's release and generally decline as a percentage of admission revenues the longer a film is in exhibition. Because the Company purchases certain concession items, such as fountain drinks and popcorn, in bulk and not pre-packaged for individual servings, the Company is able to improve its margins by negotiating volume discounts. Other theatre operating expenses consist primarily of theatre labor and occupancy costs.

Results of Operations for Regal for the Fiscal 2002 Period and the Fiscal 2001 Period

The following table sets forth the percentage of revenues represented by certain items included in the Company's consolidated statements of operations for the Fiscal 2002 Period and the Fiscal 2001 Period (dollars and attendance in millions):

	Fiscal 2002 Period		**Fiscal 2001 Period**	
	$	**% of Revenues**	**$**	**% of Revenues**
Revenues:				
Admissions	$ 1,453.7	67.9%	382.5	68.7%
Concessions	588.3	27.5	153.3	27.5
Other operating revenues	98.2	4.6	21.1	3.8
Total revenues	2,140.2	100.0	556.9	100.0
Operating expenses:				
Film rental and advertising costs(1)	790.3	54.4	212.9	55.7
Cost of concessions(2)	84.4	14.3	18.1	11.8
Other theatre operating expenses(3)	757.1	35.4	227.5	40.8
General and administrative expenses(3)	65.1	3.1	21.4	3.8
Depreciation and amortization(3)	134.4	6.3	42.6	7.6
	18.9	0.9		

	Fiscal 2002 Period		Fiscal 2001 Period	
Merger and restructuring expenses and amortization of deferred stock compensation(3)				
Loss on disposal and impairment of operating assets(3)	6.4	0.3	0.3	0.1
Total operating expenses(3)	1,856.6	86.8	522.8	93.9
Operating income(3)	283.6	13.2	34.1	6.1
Net income(3)	$ 117.2	5.5%	$ 4.9	0.9%
Attendance	241.4		63.9	
Average ticket price	$ 6.02		$ 5.99	
Average commission per patron	$ 2.44		$ 2.40	

(1) Percentage of revenues calculated as a percentage of admissions revenues.

(2) Percentage of revenues calculated as a percentage of concessions revenues.

(3) Percentage of revenues calculated as a percentage of total revenues.

The Company believes its historical results are not indicative of its current operations, and, as a result, has provided only the following summary analysis of such results. An in-depth comparison of the year ended December 26, 2002 results versus those for the period ended January 3, 2002 has not been presented because (i) its historical results do not reflect the results of operations for Regal Cinemas for the period ended January 3, 2002 and these results are significant to the Company, (ii) its historical results do not include a full year of operating results for Regal Cinemas or United Artists for the year ended December 26, 2002, and (iii) the Company's capital structure has changed significantly subsequent to the period ended January 3, 2002.

Total Revenues

Total revenues for the Fiscal 2002 Period increased $1,583.3 million, or 284.3%, from the Fiscal 2001 Period. The increase in total revenues in the Fiscal 2002 Period was primarily attributable to the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). To a lesser extent, increases in average ticket prices of 0.5% and average concessions per patron of 1.7% contributed to the increase in total revenues for the Fiscal 2002 Period.

Operating Expenses

Total operating expenses for the Fiscal 2002 Period increased $1,333.8 million, or 255.1%, from the Fiscal 2001 Period. The increase in operating expenses in the Fiscal 2002 Period was principally related to the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). Total operating expenses as a percentage of total revenues decreased slightly to 86.8% in the Fiscal 2002 Period from 93.9% in the Fiscal 2001 Period, which is primarily attributable to the growth in total revenues and the realization of operating efficiencies associated with the 2002 integration of Regal Cinemas, United Artists and Edwards.

Operating Income

Operating income for the Fiscal 2002 Period increased $249.5 million from the Fiscal 2001 Period. The increase in operating income during the Fiscal 2002 Period is primarily attributable to the growth in total revenues as a result of the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). Such increase was coupled with the realized benefits associated with the 2002 integration of Regal Cinemas, United Artists and Edwards.

Net Income

Net income for the Fiscal 2002 Period increased $112.3 million from the Fiscal 2001 Period. The increase in net income during the Fiscal 2002 Period is primarily attributable to the factors described in previous sections, partially offset by increases in interest expense associated with long-term obligations of Regal Cinemas and an increase in the Fiscal 2002 Period provision of income taxes over the Fiscal 2001 Period.

Changes in Cash Flows

Cash flows generated from operating activities were approximately $373.2 million for the year ended December 26, 2002 compared to approximately $61.6 million for the period ended January 3, 2002. The increase was attributable to the inclusion of Edwards, Regal Cinemas and fifty-one weeks of United Artists in 2002 and to increases in net income and non cash items and changes in working capital items. Capital expenditures were $108.2 million for the year ended December 26, 2002 compared to $20.8 million for the period ended January 3, 2002. The increase is primarily due to the inclusion of Edwards, Regal Cinemas and fifty-one weeks of United Artists in 2002. In addition, Regal Cinemas, Inc. had approximately $166.7 million of cash on the date Anschutz acquired its controlling equity interest.

Liquidity and Capital Resources

The Company conducts its operations through its subsidiaries: Regal Cinemas, United Artists, Edwards and Regal CineMedia. The Company was formed in the first quarter of 2002 and expects its primary uses of cash to be for operating expenses and general corporate purposes related to corporate operations. The Company's principal sources of liquidity are from its operating subsidiaries. In the Company's operating subsidiaries, principal uses of cash will be for operating expenses, capital expenditures, and debt service. The principal sources of liquidity for the Company's subsidiaries are cash generated from their operations, cash on hand and the revolving credit facilities provided for under the Regal Cinemas senior credit facilities.

The Company's revenues are generally collected in cash through admissions and concessions revenues. The Company's operating expenses are primarily related to film and advertising costs, rent and occupancy, and payroll. Film costs are ordinarily paid to distributors within 30 days following receipt of admissions revenues and the cost of the Company's concessions are generally paid to vendors approximately 30 days from purchase. The Company's current liabilities generally include items that will become due within twelve months and, as a result, at any given time, the Company's balance sheet is likely to reflect a working capital deficit.

The Company funds the cost of its operating subsidiaries' capital expenditures through internally generated cash flow, cash on hand and financing activities. The Company's capital requirements have historically arisen principally in connection with acquisitions of theatres, new theatre openings, adding new screens to existing theatres, upgrading the Company's theatre facilities and replacing equipment. The Company intends to continue to grow its theatre circuit through selective expansion and acquisition opportunities. The Company currently expects capital expenditures for theatre development, replacement, expansion, upgrading and maintenance to be in the range of $90 million to $100 million in 2003. In addition to capital expenditures associated with its theatre operations, the Company expects to incur capital expenditures of approximately $43 million in connection with Regal CineMedia during 2003. The Company anticipates a significant portion of the Regal CineMedia capital expenditures to be made in connection with the development and deployment of the DCN to provide advertising and promotional services and to distribute various forms of digital programming. During the year ended December 26, 2002, the Company invested an aggregate of approximately $108.2 million in capital expenditures.

As of December 26, 2002, Regal Cinemas had $145 million committed under its undrawn senior revolving credit facility, $219.4 million outstanding under its senior secured term loan and $350 million principal amount of $9^{3}/_{8}$% senior subordinated notes due 2012. Regal Cinemas also maintains a letter of credit of $15 million as of December 26, 2002, which reduces the availability under its senior revolving credit facility to $130 million.

In May 2002, the Company issued 18.0 million shares of its Class A common stock in an initial public offering. The initial public offering was effected through two Form S-1 Registration Statements (File Nos. 333-84096 and 333-87870) that were declared effective by the Securities and Exchange Commission on May 8, 2002. All 18.0 million shares were sold at an initial public offering price of $19.00 per share, for an aggregate offering price of $342 million, through a syndicate of underwriters managed by Credit Suisse First Boston Corporation, Lehman Brothers Inc., Bear, Stearns & Co. Inc. and Salomon Smith Barney Inc.

The Company paid to the underwriters underwriting discounts and commissions totaling approximately $23.1 million in connection with the offering. In addition, the Company incurred additional expenses of approximately $4.1 million in connection with the offering. The net offering proceeds, after deducting underwriting discounts, commissions and other offering expenses, were approximately $314.8 million.

The Company used a portion of its net proceeds from its initial public offering to repay approximately $240.7 million of principal and accrued interest owed by United Artists under its term credit facility (see Note 6 "Long-Term Obligations" to the accompanying mandated consolidated financial statements) and approximately $15.0 million to fund operating costs and capital expenditures of Regal CineMedia. Since that time, the Company has used approximately an additional $34.0 million of the net proceeds to purchase the remaining outstanding shares of common stock of United Artists held by United Artists' minority shareholders and warrants to purchase shares of common stock of United Artists held by various institutional holders, $19.8 million to fund the Company's fourth quarter 2002 dividend payment, and the remaining $5.3 million for general corporate purposes.

On December 13, 2002, we paid our first cash dividend of $0.15 per share of Class A and Class B common stock, or $19.8 million in the aggregate, to our stockholders of record on November 26, 2002. On February 3, 2003, we declared our second cash dividend of $0.15 per share of Class A and Class B common stock, payable on March 14, 2003, to our stockholders of record on February 25, 2003. We, at the discretion of the board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

On February 3, 2003, the Company entered into a definitive stock purchase agreement pursuant to which the Company agreed to acquire certain assets of Hoyts Cinemas for a combination of cash of approximately $100 million and stock (ranging from 4,308,390 to 4,761,905 shares based on the 14 trading days ending on the second trading day prior to closing of the transaction) and the assumption of certain capital leases. Under the stock purchase agreement, Regal expects to acquire 52 of the 97 Hoyts Cinemas theatres representing 554 screens located in 10 states in the Northeastern United States. Regal anticipates closing the transaction during the first half of 2003.

Contractual Obligations and Commitments

The Company primarily leases its theatres pursuant to long-term non-cancelable operating leases. As of December 26, 2002, the Company's estimated contractual cash obligations and commercial commitments over the next several years are as follows (in millions):

	Payments Due by Period				
	Total	**Current**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Contractual Cash Obligations					
Long-term debt	$ 569.4	$ 14.1	$ 22.5	$ 182.8	$ 350.0
Capital lease obligations	4.1	0.2	0.4	0.4	3.1
Lease financing arrangements	97.8	1.8	4.7	6.3	85.0
Bankruptcy claims and Liabilities	23.6	23.6			
Other long term obligations	7.1	0.9	2.0	3.3	0.9
Operating leases	3,367.9	221.4	432.4	423.7	2,290.4
Total contractual cash obligations	$ 4,069.9	$ 262.0	$ 462.0	$ 616.5	$ 2,729.4

	Amount of Commitment Expiration per Period				
	Total Amounts Committed	**Current**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Other Commercial Commitments					
Lines of credit	$ 145.0				$ 145.0
Total commercial commitments	$ 145.0				$ 145.0

The Company believes that the amount of cash and cash equivalents on hand, cash flow expected from operations and availability under its revolving credit facilities will be adequate for the Company to execute its business strategy and meet anticipated requirements for lease obligations, capital expenditures, working capital and debt service for at least 12 months.

The following is a description of the Company's material indebtedness as of December 26, 2002:

Regal Cinemas Senior Credit Facility

Regal Cinemas entered into an amended and restated senior credit agreement with several financial institutions including Lehman Brothers, Inc., Credit Suisse First Boston Corporation, General Electric Capital Corporation and Lehman Commercial Paper, Inc., on August 12, 2002, amending its existing senior credit agreement to increase the amount available for borrowing under the senior secured revolving credit facility from $100 million to $145 million and to decrease the amount of the senior secured term loan from $270 million to $225 million. Under the amended and restated senior credit agreement, the lenders advanced Regal Cinemas $225.0 million through a senior secured term loan, which was used, together with cash on hand at Regal Cinemas, Inc., to repay in full its existing $270.0 million term loan. The amended and restated senior credit agreement also made available, subject to the satisfaction of conditions customary for extensions of credit of this type, an additional $145.0 million through a senior secured revolving credit facility. The $225.0 million term loan will amortize at a rate of 5% per annum until December 31, 2006, with the remaining 75% due in four installments ending on December 31, 2007. The senior secured revolving credit facility became available on August 12, 2002 and will be available until January 29, 2007. Regal Cinemas also maintains a letter of credit for $15.0 million related to its general unsecured claims, which reduces the availability under its senior secured revolving credit facility to $130.0 million. As of December 26, 2002, there were no amounts outstanding on the senior secured revolving credit facility.

Borrowings under the term credit facility bear interest, at Regal Cinemas' option, at either the base rate or Eurodollar rate plus, in each case, an applicable margin, subject to adjustment based upon the consolidated total leverage ratio of Regal Cinemas. The base rate is a fluctuating interest rate equal to the higher of (a) the British Banking Association's prime rate or (b) the Federal Funds Effective Rate plus 0.5%. At December 26, 2002, the interest rate on the senior credit facility was approximately 4.6%.

Regal Cinemas may prepay borrowings under the amended and restated senior credit agreement in whole or in part, in minimum amounts and subject to other conditions set forth in the amended and restated senior credit agreement. Regal Cinemas is required to make mandatory prepayments to the lenders from:

- the net cash proceeds from asset sales in particular circumstances specified in the amended and restated senior credit agreement; and
- the net cash proceeds from new debt issuances in particular circumstances specified in the amended and restated senior credit agreement.

The mandatory prepayment of the obligations under the amended and restated senior credit agreement is subject to specified exceptions. The lenders under the term credit facility may elect to decline any mandatory prepayment.

Regal Cinemas' obligations are secured by, among other things, the capital stock of most of its subsidiaries, mortgages on most of its properties and a security interest in substantially all of its assets.

The amended and restated senior credit agreement includes several financial covenants. Regal Cinemas cannot permit, at the end of each applicable fiscal quarter:

- its ratio of consolidated total debt to consolidated EBITDA for the trailing four quarters (as defined in the amended and restated senior credit agreement) to exceed the ratio of (a) 3.5 to 1 for the third fiscal quarter in 2002 through the fourth fiscal quarter in 2004 and (b) 3.25 to 1 for the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007 and thereafter;
- its ratio of consolidated EBITDA plus consolidated rent expense to interest plus rent expense to be less than 1.50 to 1 for any period of four consecutive fiscal quarters;
- its ratio of consolidated senior debt to consolidated EBITDA for the trailing four quarters to exceed the ratio of (a) 2.50 to 1 for the third fiscal quarter in 2002 through the fourth fiscal quarter in 2003, (b) 2.25 to 1 for the first fiscal quarter 2004 through the fourth fiscal quarter in 2004, and (c) 2.00 to 1 from the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007, and thereafter;
- its ratio of consolidated adjusted debt to consolidated EBITDA for the trailing four quarters plus consolidated rent expense for the trailing four quarters to exceed the ratio of (a) 5.50 to 1 for the third fiscal quarter in 2002 through the fourth fiscal

quarter in 2004, and (b) 5.25 to 1 for the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007 and thereafter; or

its capital expenditures as a percentage of the prior year's EBITDA to exceed 25% for fiscal 2002 and up to 35% for each year thereafter.

The amended and restated senior credit agreement also contains customary covenants, including limitations on Regal Cinemas' ability to incur debt, and events of default, including a change of control, as defined in the amended and restated senior credit agreement. The amended and restated senior credit agreement also limits Regal Cinemas' ability to pay dividends, to make advances to the Company or its other subsidiaries and otherwise to engage in intercompany transactions. These limitations will restrict its ability to fund operations outside of Regal Cinemas with funds generated at Regal Cinemas.

Regal Cinemas Senior Subordinated Notes

On January 29, 2002, Regal Cinemas issued $200.0 million aggregate principal amount of $9^3/_8$% senior subordinated notes due 2012. Subsequently, on April 17, 2002, Regal Cinemas issued an additional $150.0 million aggregate principal amount of $9^3/_8$% senior subordinated notes due 2012 with identical terms. The January notes were initially purchased by Credit Suisse First Boston Corporation and Lehman Brothers Inc., and the April notes were initially purchased by Credit Suisse First Boston Corporation. In each instance, the notes were resold to various qualified institutional buyers and non-U.S. persons pursuant to Rule 144A and Rule 903 or Rule 904, respectively, under the Securities Act of 1933. Interest on the notes is payable semi-annually on February 1 and August 1 of each year, and the notes mature on February 1, 2012. The notes are guaranteed by most of Regal Cinemas' existing subsidiaries, and, under the circumstances specified in the indenture, future subsidiaries will also be required to guarantee the notes. The notes are unsecured and rank behind Regal Cinemas' obligations under its senior credit facility and any future senior indebtedness.

Regal Cinemas has the option to redeem the notes, in whole or in part, at any time on or after February 1, 2007 at redemption prices declining from 104.688% of their principal amount on February 1, 2007 to 100% of their principal amount on or after February 1, 2010, plus accrued interest. At any time on or prior to February 1, 2005, Regal Cinemas may also redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 109.375% of their principal amount, plus accrued interest, within 90 days of an underwritten public offering of common stock of Regal Cinemas or of a future underwritten public offering of the Company's common stock, the proceeds of which are used as a contribution to the equity of Regal Cinemas. Upon a change of control, as defined in the indenture pursuant to which the notes were issued, Regal Cinemas is required to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued interest. In addition, the indenture limits Regal Cinemas' and its subsidiaries' ability to, among other things, incur additional indebtedness and pay dividends on or repurchase capital stock.

In May 2002, Regal Cinemas filed a registration statement (Registration No. 333-87930) under the Securities Act of 1933 pursuant to a registration rights agreement entered into in connection with the $9^3/_8$% senior subordinated notes offerings. The registration statement was declared effective by the Securities and Exchange Commission on July 10, 2002, enabling the eligible holders of the notes to exchange their notes for notes registered under the Securities Act of 1933. The transaction described in the registration statement, pursuant to which all of the note holders exchanged their notes for registered notes, closed on August 14, 2002. Regal Cinemas did not receive any proceeds from the transaction.

Regal Cinemas, Inc. Leveraged Sale and Leaseback

During 2000, Regal Cinemas, Inc. entered into a sale and leaseback transaction with an unaffiliated third party involving 15 of its owned theatres. Under the terms of this transaction, Regal Cinemas, Inc. sold the land and related improvements of the theatres for $45.2 million and leased them back for an initial lease term of 20 years, with an option to extend it for up to 20 additional years. Regal Cinemas accounts for these leases as operating leases.

Regal Cinemas Lease Financing Arrangements

For some of the Company's new theatre sites built in fiscal years 1999, 2000 and 2001, the Company was considered the owner (for accounting purposes) of the theatre during the construction period. In accordance with Emerging Issues Task Force No. 97-10, the Company was required to record the balance sheet obligations ($97.8 million at December 26, 2002) when the construction of the theatre was completed resulting in payments being recorded as interest expense and principal reduction rather than rent expense. These leases typically run for a period of 20 years.

United Artists Leveraged Sale and Leaseback

In December 1995, United Artists Theatre Circuit, Inc. ("UATC"), one of our subsidiaries, entered into a sale and leaseback transaction whereby the land and buildings underlying 27 of its operating theatres and four theatres and a screen addition under development were sold to and leased back from an unaffiliated third party. The transaction requires UATC to lease the underlying theatres for a period of 21 years and one month, with the option to extend for up to an additional 10 years. In conjunction with the transaction, the buyer of the properties issued publicly traded pass-through certificates. Several of its properties included in the sale and leaseback transaction have been determined by UATC to be economically obsolete for theatre use. As of December 26, 2002, 27 theatres were subject to the sale leaseback transaction. UATC amended the lease on March 7, 2001 to allow UATC to terminate the master lease with respect to the obsolete properties, to allow the owner trustee to sell those properties and pay down the underlying debt (at a discount to par through September 2002 and par thereafter) and to reduce the amount of rent paid by UATC on the lease. Included in the 2001 amendment is a $35.0 million cap on the ability to sell properties. Through December 26, 2002 approximately $12.1 million of this cap has been utilized through theatre sales. Five additional properties are no longer operational and are being marketed for sale. An evaluation of the remaining theatres is performed on an ongoing basis. Approximately $87.5 million in principal amount of pass-through certificates were outstanding as of December 26, 2002.

In connection with the 1995 sale and leaseback transaction, UATC entered into a participation agreement that requires UATC to comply with various covenants, including limitations on indebtedness, restricted payments, transactions with affiliates, guarantees, issuances of preferred stock of subsidiaries and subsidiary distributions, transfer of assets and payment of dividends.

On November 8, 1996, UATC entered into a sale and leaseback transaction, pursuant to which UATC sold three of its operating theatres and two theatres under development to an unaffiliated third party for approximately $21.5 million and leased back those theatres pursuant to a lease that terminates in 2017. The lease provides UATC with an option to extend the term of the lease for an additional 10 years. Two of the theatres have been determined by UATC to be economically obsolete and are no longer in operation.

In December 1997, UATC entered into a sale and leaseback transaction, pursuant to which it sold two theatres under development and leased them back from an unaffiliated third party for approximately $18.1 million. Approximately $9.2 million of the sales proceeds were paid to UATC during 1999 for reimbursement of some construction costs associated with the two theatres. The lease has a term of 22 years with options to extend the term of the lease for an additional 10 years.

During 1999, UATC entered into a sale and leaseback transaction on one existing theatre. Proceeds were received in the amount of $5.4 million by UATC during 1999. The lease has a term of 20 years, with an option to extend the term of the lease for up to 20 additional years.

Edwards Leveraged Sale and Leaseback

During 1999, Edwards entered into four sale and leaseback transactions whereby Edwards sold four theatres and leased them back from an unaffiliated third party. The related leases are being accounted for as operating leases.

During 2000, Edwards entered into two sale leaseback transactions whereby Edwards sold two of its properties and leased them back from an unaffiliated third party. As part of these transactions, an additional location was sold with a portion of the building being leased back for corporate use. The related leases are being accounted for as operating leases.

Bankruptcy Claims

Regal Cinemas, Inc. and Edwards have bankruptcy claims that remain unsettled and are subject to ongoing negotiation and possible litigation. At December 26, 2002, Regal Cinemas had accrued approximately $23.6 million for the estimated costs to resolve such bankruptcy claims. In the opinion of management, based on its examination of these matters, its experience to date and discussions with legal counsel, the outcome of these legal matters, after taking into consideration the amounts already accrued, is not expected to have a material effect on the Company's liquidity or results of operations. To the extent these claims are allowed, they will be funded with cash on hand, cash flow from operations or borrowings under Regal Cinemas' revolving credit facility. In addition to these sources of funding, with respect to allowed Edwards claims, they may also be funded from restricted cash that has been set aside, and, if the allowed Edwards claims exceed $55 million, from contributions by The Anschutz Corporation and its subsidiaries ("Anschutz") and OCM Principal Opportunities Fund II, L.P. and its subsidiaries ("Oaktree's Principal Activities Group"). The timing of payment on these claims will depend upon the resolution of these claims. See also Note 3 "Chapter 11 Proceedings" and Note 11 "Related Party Transactions" to the accompanying unaudited condensed consolidated financial statements.

Quarterly Results

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists and Edwards upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) and on September 29, 2001 of the Edwards Bankrupt Entities (as defined in Note 1 to the accompanying financial statements). On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. when the Regal Cinemas, Inc. Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in Regal Cinemas, Inc. for a controlling equity interest in Regal Cinemas immediately thereafter. Regal Cinemas, Inc. is a wholly owned subsidiary of Regal Cinemas. In addition, Regal CineMedia was formed in February 2002 to focus on the development of ancillary revenues and became our wholly owned subsidiary on April 12, 2002. On April 17, 2002, Regal Cinemas, Inc. acquired all of the outstanding capital stock of Edwards and, as a result, Edwards became a wholly owned subsidiary of Regal Cinemas, Inc.

The Company's financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas. These controlling equity interests have been recorded in the Company's financial statements at Anschutz's combined historical cost basis. Accordingly, the Company's financial statements for the year ended January 3, 2002 reflect only the results of operations of United Artists from March 1, 2001 and Edwards from September 30, 2001 to December 27, 2001. We had no independent operations before March 1, 2001. The Company's financial statements for the year ended December 26, 2002 include the results of operations of United Artists (from January 4, 2002), Edwards (from December 28, 2001), and Regal Cinemas (from January 24, 2002). The comparability of our results between quarters is impacted by the inclusion from such dates of the results of operations of each of such entities.

The following tables set forth selected unaudited quarterly results for the eight quarters ending December 26, 2002. The quarterly financial data as of each period presented below have been derived from Regal's unaudited consolidated financial statements for those periods. Results for these periods are not necessarily indicative of results for the full year. The quarterly financial data should be read in conjunction with the consolidated financial statements of Regal and notes thereto included in Item 8 to this Form 10-K Financial Statements and Supplemental Data.

	Dec. 26, 2002	Sept. 26, 2002	June 27, 2002	Mar. 28, 2002	Jan. 3, 2002	Sept. 27, 2001	June 28, 2001	Mar. 29, 2001
	In millions (except per share data)							
Total revenues	$ 547.3	$ 571.5	$ 607.3	$ 414.1	$ 240.3	$ 158.7	$ 128.5	$ 29.4
Operating income (loss)	66.5	77.3	94.5	45.3	19.1	13.0	5.8	(3.7)
Net income (loss)	31.7	36.1	38.7	10.5	6.8	6.1	(1.2)	(6.8)
Diluted earnings (loss) per share	0.23	0.27	0.09	0.19	0.27	0.32	(0.07)	(1.27)
Dividends per common share	$ 0.15	$	$	$	$	$	$	$

Inflation

The Company does not believe that inflation has had a material impact on its financial position or results of operations.

Seasonality

The Company's revenues are usually seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, studios release the most marketable motion pictures during the summer and the holiday seasons. The unexpected emergence of a "hit" film during other periods can alter the traditional pattern. The timing of movie releases can have a significant effect on the Company's results of operations, and the results of one quarter are not necessarily indicative of the results for the next or any other quarter. The seasonality of motion picture exhibition, however, has become less pronounced in recent years as studios have begun to release major motion pictures somewhat more evenly throughout the year.

Results of Operations for Fiscal 2001 and 2000 United Artists

The following results of operations of United Artists, our predecessor company for accounting purposes, are being provided pursuant to applicable SEC rules. These results of operations of United Artists are not indicative of the combined results of operations of Regal because they do not include the results of Edwards and Regal Cinemas, and they do not purport to be indicative of future results of operations of Regal. Because of United Artists' adoption of fresh start reporting on March 2, 2001, United Artists' historical financial statements do not necessarily reflect its ongoing operations. In order to provide a meaningful basis of comparing United Artists' year over year operating results for purposes of the following tables and discussion, the operating results of United Artists for the forty-four weeks ended January 3, 2002 (Reorganized) have been combined with the operating results of United Artists for the nine weeks ended March 1, 2001 (Historical). The combined periods are herein referred to as combined United Artists fiscal 2001. The combined United Artists fiscal 2001 results are compared to the fiscal year ended December 28, 2000. Depreciation, amortization and other line items included in the operating results of United Artists are not comparable between periods as the nine weeks ended March 1, 2001 and the fiscal year ended December 28, 2000 do not include the effect of fresh-start reporting adjustments, which are discussed above under the caption "Selected Financial Data Selected Historical Financial and Other Data for United Artists." The combining of reorganized and historical periods is not acceptable under accounting principles generally accepted in the United States of America. This combined financial data should not be viewed as a substitute for United Artists' results of operations determined in accordance with generally accepted accounting principles. Therefore, you should read the following results of operations of United Artists in conjunction with United Artists' consolidated financial statements and accompanying notes found elsewhere in this Form 10-K.

The following table sets forth for the fiscal periods indicated the percentage of total revenues represented by the specified items included in United Artists' statements of operations:

	Combined United Artists	
	Fiscal Year Ended January 3, 2002	**Fiscal Year Ended December 28, 2000**
Revenues:		
Admissions	68.6%	67.7%
Concessions	27.5	28.1
Other operating revenues	3.9	4.2
Total revenues	100.0	100.0
Operating expenses:		
Film rental and advertising costs	37.8	37.2
Cost of concessions	3.1	3.3
Theatre operating expenses	41.1	44.4
General and administrative	3.5	3.9
Depreciation and amortization	7.5	8.1
Asset impairments, lease exit and restructure costs	0.7	10.0
Gain on disposition of assets, net	(1.2)	(2.6)
Total operating expenses	92.5	104.3
Operating income (loss)	7.5%	(4.3)%

Fiscal Years Ended January 3, 2002 and December 28, 2000

Total Revenues

The following table summarizes revenues and revenue-related data for United Artists' fiscal 2001 and 2000 (in millions, except averages):

	Combined United Artists	
	Fiscal Year Ended January 3, 2002	**Fiscal Year Ended December 28, 2000**
Admissions	$ 391.3	$ 372.4
Concessions	157.0	154.6
Other operating revenues	22.4	23.3
Total revenues	$ 570.7	$ 550.3

	Combined United Artists	
Attendance	66.7	66.7
Average ticket price	$ 5.87	$ 5.58
Average concessions per patron	2.35	2.32

Admissions. Total admissions revenues increased $18.9 million, or 5.1%, to $391.3 million, for the year ended January 3, 2002 from $372.4 million for the year ended December 28, 2000. The increase in admissions revenues in 2001 was primarily attributable to a 5.0% increase in average ticket prices.

Concessions. Total concessions revenues increased $2.4 million, or 1.6%, to $157.0 million in 2002, from $154.6 million for 2000. The increase in concessions revenues in 2001 was primarily due to an increase in average concessions per patron.

Other Operating Revenues. Total other operating revenues decreased $0.9 million, or 3.9%, to $22.4 million in 2001, from $23.3 million for 2000. The decreases in other operating revenues in 2001 were primarily due to the closure of under-performing theatres, the general downturn in the advertising market during 2001 and customers' reluctance to book The Satellite Theatre Network® events during United Artists' bankruptcy proceedings.

Operating Expenses

Film Rental and Advertising Costs. Film rental and advertising costs increased $10.6 million, or 5.2%, to $215.5 million in 2001, from $204.9 million for 2000. During 2001, a slight increase from 2000 in film rental costs as a percentage of admissions revenue was nearly offset by a decrease in advertising costs as a percentage of admissions revenue, thus resulting in film rental and advertising costs as a percentage of admission revenue increasing by 0.1%.

Cost of Concessions. Cost of concessions decreased $0.1 million, or 0.6%, to $17.9 million in 2001, from $18.0 million for 2000. Cost of concessions as a percentage of concessions revenues decreased to 11.4% in 2001 as compared to 11.7% in 2000. The decreases in concession costs as a percentage of concessions revenue are primarily due to purchasing cost reductions, reduced concession promotional costs and increased rebates from certain concession vendors.

Other Theatre Operating Expenses. Other theatre operating expenses decreased $9.6 million, or 3.9%, to $234.8 million in 2001 from $244.4 million for 2000. Other theatre operating expenses as a percentage of total revenues decreased to 41.1% in 2001 from 44.4% during 2000. The decreases in other theatre operating expenses are primarily due to the sale, closure or rejection of under-performing theatres and a reduction in other controllable costs.

General and Administrative Expenses General and administrative expenses of United Artists decreased $1.3 million, or 6.1%, to $20.0 million in 2001, from $21.3 million for 2000. As a percentage of total revenues, general and administrative expenses decreased to 3.5% in 2001 from 3.9% in 2000. The decrease in general and administrative expenses during 2001 is primarily due to the elimination of four district offices, a reduction in the number of corporate personnel, and other expense efficiency measures.

Operating Income (Loss)

Operating income of United Artists increased by $66.6 million to $42.8 million in 2001, from a loss of $23.8 million for 2000 largely because of substantial asset impairments in 2000 compared to 2001. Operating income as a percentage of total revenues was 7.5% in 2001. Operating loss as a percentage of total revenues was 4.3% in 2000.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations," and primarily addresses the accounting for the cost of an acquired business (i.e., the purchase price allocation), including any subsequent adjustment to its cost. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting) and supersedes APB 17, "Intangible Assets." The most significant changes made by SFAS No. 141 involve the requirement to use the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method along with the establishment of new criteria for determining whether the Company should recognize intangible assets acquired in a business combination separately from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's financial position or results of operations.

Pursuant to SFAS No. 142, the Company no longer amortizes goodwill, reorganizational value in excess of amounts allocated to identifiable assets or indefinite lived intangible assets, and will test for impairment at least annually at the reporting unit level. Other long-lived assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," issued in August 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 for all goodwill and other intangible assets, including excess reorganization value, recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. Amortization relating to goodwill and excess reorganization value was $9.6 million for the period ended January 3, 2002. The Company's initial and annual goodwill impairment tests for fiscal 2002 indicated that the fair value of its reporting units exceeded their carrying value and therefore, at this time, goodwill was not deemed to be impaired.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of the fair value of obligations associated with the retirement of long-lived assets when there is a legal obligation to incur such costs. Under SFAS No. 143, the costs of retiring an asset will be recorded as a liability when the retirement obligation arises and will be amortized to expense over the life of the asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of the adoption of this standard and has not yet determined the effect of adoption on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which provides clarifications of certain implementation issues with SFAS No. 121 along with additional guidance on the accounting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 and applies to all long-lived assets (including discontinued operations) and consequently amends APB 30, "Reporting the Effects of Disposal of a Segment of a Business." SFAS No. 144 develops one accounting model (based on the model in SFAS No. 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that entities measure long-lived assets that are to be disposed of by sale at the lower of book value or fair value less cost to sell. That requirement eliminates APB 30's requirement that discontinued operations be measured at net realizable value or that entities include under "discontinued operations" in the financial statements amounts for operating losses that have not yet occurred. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) the entity can distinguish from the rest of the entity and (2) the entity will eliminate from the ongoing operations of the entity in a disposal transaction. The Company adopted SFAS No. 144 in the first quarter of 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements including the rescission of Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. The provisions of SFAS No. 145 related to the rescission of Statement 4 is effective for fiscal years beginning after May 15, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses significant issues relating to the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities, and nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 94-3 (EITF 94-3), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)" The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Retroactive application of SFAS No. 146 is prohibited and, accordingly, liabilities recognized prior to the initial application of SFAS No. 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable preexisting guidance.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation will significantly change current practice in the accounting for, and disclosure of, guarantees. Guarantees meeting the characteristics described in the interpretation are required to be initially recorded at fair value, which is different from general current practice of recognition of a liability only when loss is probable and reasonably estimable, as prescribed in SFAS No. 5, "Accounting for Contingencies." The interpretation also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The adoption of this interpretation is not expected to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities an Interpretation of ARB No. 51." This interpretation addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. The Company is evaluating the impact of adopting this interpretation.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to SFAS No. 123's fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions are applicable to all companies with stock-based employee compensation, regardless of whether they account for such compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. The disclosure requirements are effective for fiscal years ending after December 15, 2002. The Company has elected to continue the intrinsic value method of accounting for its employee stock options in accordance with APB Opinion No. 25 and as a result, the adoption of SFAS No. 148 did not have a material impact on the Company's financial position and results of operations.

Risk Factors

Investing in our securities involves a significant degree of risk. In addition to the other information contained in this annual report, you should consider the following factors before investing in our securities.

Our operating companies lack a combined operating history and have in the past operated at a loss

Regal Cinemas, United Artists and Edwards operated as separate motion picture exhibitors until we acquired them, and the theatre circuits operated by them operated at a loss prior to their emergence from bankruptcy reorganization. As a result, we have limited historical financial and operating data upon which you can evaluate our business. There can be no assurance that we can successfully conduct their combined operations on an economically feasible basis and we may therefore incur losses in the future.

The bankruptcy reorganizations of our theatre circuit operators could harm our business, financial condition and results of operations

During the past 24 months, each of Regal Cinemas, Inc., United Artists and Edwards emerged from bankruptcy reorganization under Chapter 11 of the United States Bankruptcy Code. Regal Cinemas, Inc. and Edwards have claims from these bankruptcy reorganizations that remain unsettled and are subject to ongoing negotiation and possible litigation. The final amounts paid in connection with the claims could materially exceed the approximate $23.6 million amount accrued by Regal for such claims at December 26, 2002, which could reduce our profitability or cause us to incur losses that would affect the trading price of our common stock. In addition, the past inability of our theatre circuit operators to meet their obligations that resulted in their filing for bankruptcy protection, or the perception that we may not be able to meet our obligations in the future, could adversely affect our ability to obtain adequate financing, or our relationships with our customers and suppliers, as well as our ability to retain or attract high-quality employees.

The oversupply of screens in the motion picture exhibition industry and other factors caused several major movie theatre circuits to reorganize under the United States Bankruptcy Code, which may make it difficult for us to borrow or access the capital markets in the future

Since 1999, several major motion picture exhibition companies, including United Artists, Edwards and Regal Cinemas, Inc. have filed for bankruptcy. One significant cause of those bankruptcies was the emphasis by theatre circuits on the development of large megaplexes in recent years. The strategy of aggressively building megaplexes was adopted throughout the industry and generated significant competition and resulted in an oversupply of screens in the North American motion picture exhibition industry. The oversupply of screens, increased construction, rent and occupancy costs and other factors, including a downturn in attendance in 2000, caused significant liquidity pressures throughout the motion picture exhibition industry. We and other theatre circuits experienced impairment write-offs, losses on theatre dispositions and downward adjustment of credit ratings and defaults under loan agreements. These factors may make it difficult for us to borrow money or access the capital markets and, as a result, the market price of our securities, including our common stock, may be adversely affected.

We have a substantial investment in developing ancillary revenue opportunities that we may be unable to achieve

We have invested approximately $29.1 million in capital expenditures related to ancillary revenue opportunities during 2002 and we expect to make approximately $43 million of additional capital expenditures relating to these opportunities during 2003. These investments are aimed at generating revenues through a digital network that is not complete and through exploiting other ancillary business uses of our theatres. For example, we will invest in changing the network software and distribution network and develop a new sales force to implement the use of the

NGN assets acquired by Regal CineMedia. We may be unable to attract significant interest in the products and services of Regal CineMedia. If we are unable to generate sufficient revenue from the sale of advertising in our theatres or from alternative products and services, we may not achieve or maintain the level of profitability we hope to achieve, and our results of operations may be adversely affected.

We operate in a competitive environment

The motion picture exhibition industry is fragmented and highly competitive, particularly with respect to film licensing, attracting patrons and developing new theatre sites. Theatres operated by national and regional circuits and by small independent exhibitors compete with our theatres. In recent years, motion picture exhibitors have emphasized the development of large megaplexes, some of which have as many as 30 screens in a single theatre. The industry-wide strategy of aggressively building megaplexes generated significant competition and rendered many older multiplex theatres obsolete more rapidly than expected. Many of these theatres are under long-term lease commitments that make them financially burdensome to close and some companies have elected to continue operating them notwithstanding their lack of profitability. In other instances, because theatres are typically limited use design facilities, or for other reasons, landlords have been willing to make rent concessions to keep them open. As a result, there is an oversupply of screens in the North American motion picture exhibition industry. This has affected, and may continue to affect, the performance of some of our theatres.

There are no significant barriers to entry in the motion picture exhibition industry. Although we expect a decline in the number of screens industry-wide, our competitors, including new motion picture exhibitors, may from time to time build new theatres or screens in areas in which we operate, which may require us to compete for popular films or result in excess capacity in those areas and hurt attendance at our theatres. Moviegoers are generally not brand conscious and usually choose a theatre based on its location, the films showing there and its amenities. A change in consumer preferences or technology may cause increased competition, require us to make large capital expenditures and adversely affect our operations.

The distribution of motion pictures is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Consent decrees resulting from those cases effectively require major motion picture distributors to offer and license films to exhibitors, including us, on a film-by-film and theatre-by-theatre basis. Consequently, we cannot assure ourselves of a supply of motion pictures by entering into long-term arrangements with major distributors, but must compete for our licenses on a film-by-film and theatre-by-theatre basis.

Regal CineMedia's in-theatre advertising operations must compete with a number of other advertising mediums including, most notably, television advertising. There can be no guarantee that in-theatre advertising will continue to gain acceptance among major advertisers or that Regal CineMedia's in-theatre advertising format will be favorably received by the theatre-going public. If Regal CineMedia is unable to generate expected sales of advertising, it may not achieve or maintain the level of profitability we hope to achieve, and our results of operations may be adversely affected.

An increase in the use of alternative film delivery methods may drive down movie theatre attendance and limit ticket prices

We also compete with other movie delivery vehicles, including cable television, downloads via the Internet, video disks and cassettes, satellite and pay-per-view services. Further, new technologies for movie delivery (such as video on demand) could have a material adverse effect on our business and results of operations. We also compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants.

Development of digital technology will increase our capital expenses

The industry is in the early stages of conversion from film-based media to electronic based media. There are a variety of constituencies associated with this anticipated change, which may significantly impact industry participants, including content providers, distributors, equipment providers and exhibitors. Should the conversion process rapidly accelerate and the major studios not finance the conversion as expected, we may have to raise additional capital to finance the conversion costs associated with this potential change. The additional capital necessary may not, however, be available to us on attractive terms. Furthermore, it is impossible to accurately predict how the roles and allocation of costs between various industry participants will change if the industry changes from physical media to electronic media.

We depend on motion picture production and performance

Our ability to operate successfully depends upon the availability, diversity and appeal of motion pictures, our ability to license motion pictures and the performance of such motion pictures in our markets. We mostly license first-run motion pictures, the success of which have increasingly depended on the marketing efforts of the major studios. Poor performance of, or any disruption in the production of (including by reason of a strike), these motion pictures, or a reduction in the marketing efforts of the major studios, could hurt our business and results of operations. In addition, a change in the type and breadth of movies offered by studios may adversely affect the demographic base of moviegoers.

We may not benefit from our acquisition strategy

We may have difficulty identifying suitable acquisition candidates. Even if we do identify such candidates, we anticipate significant competition from other motion picture exhibitors and financial buyers when trying to acquire these candidates, and there can be no assurances that we will be able to acquire such candidates at reasonable prices or on favorable terms. Moreover, some of these possible buyers may be stronger financially than we are. As a result of this competition for limited assets, we may not succeed in acquiring suitable candidates or may have to pay more than we would prefer to make an acquisition. If we cannot identify or successfully acquire suitable acquisition candidates, we may not be able to successfully expand our operations and our stock price could be adversely affected.

In any acquisition, including our proposed acquisition of Hoyts Cinemas described under "Business Recent Developments," we expect to benefit from cost savings through, for example, the reduction of overhead and theatre level costs and certain favorable tax attributes, and from revenue enhancements resulting from the acquisition. There can be no assurance, however, that we will be able to generate sufficient cash flow from these acquisitions to service any indebtedness incurred to finance such acquisitions or realize any other anticipated benefits. Nor can there be any assurance that our profitability will be improved by any one or more acquisitions. If we cannot generate sufficient cash flow to service debt incurred to finance an acquisition, our results of operations and profitability would be adversely affected. Any acquisition may involve operating risks, such as:

- the difficulty of assimilating the acquired operations and personnel and integrating them into our current business;
- the potential disruption of our ongoing business;
- the diversion of management's attention and other resources;
- the possible inability of management to maintain uniform standards, controls, procedures and policies;
- the risks of entering markets in which we have little or no experience;
- the potential impairment of relationships with employees;
- the possibility that any liabilities we may incur or assume may prove to be more burdensome than anticipated; and
- the possibility that any acquired theatres or theatre circuit operators do not perform as expected.

We depend on our relationships with film distributors

The film distribution business is highly concentrated, with nine major film distributors reportedly accounting for 94% of admissions revenues and 49 of the 50 top grossing films during 2002. Our business depends on maintaining good relations with these distributors. In addition, we are dependent on our ability to negotiate commercially favorable licensing terms for first-run films. A deterioration in our relationship with any of the nine major film distributors could affect our ability to negotiate film licenses on favorable terms or our ability to obtain commercially successful films and, therefore, could hurt our business and results of operations.

We must comply with the ADA

Our theatres must comply with the ADA. Compliance with the ADA requires that public accommodations "reasonably accommodate" individuals with disabilities and that new construction or alterations made to "commercial facilities" conform to accessibility guidelines unless "structurally impracticable" for new construction or technically infeasible for alterations. Noncompliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants or additional capital expenditures to remedy such noncompliance. Any such imposition of injunctive relief, fines, damage awards or capital expenditures could adversely affect our business and results of operations.

We depend on our senior management

Our success depends upon the retention of our senior management, including Michael Campbell and Kurt Hall, our Co-Chairmen and Co-Chief Executive Officers. We cannot assure you that we would be able to find qualified replacements for the individuals who make up our senior management if their services were no longer available. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. We do not currently maintain key-man life insurance for any of our employees. The loss of any member of senior management could adversely affect our ability to effectively pursue our business strategy.

A prolonged economic downturn could materially affect our business by reducing consumer spending on attending movies

We depend on consumers voluntarily spending discretionary funds on leisure activities. Motion picture theatre attendance may be affected by prolonged, negative trends in the general economy that adversely affect consumer spending, including such trends resulting from terrorist attacks on or wars or threatened wars involving the United States. Any reduction in consumer confidence or disposable income in general may affect the demand for motion pictures or severely impact the motion picture production industry, which, in turn, could adversely affect our operations.

There can be no assurance that we will acquire Hoyts Cinemas

Although we have entered into a definitive stock purchase agreement to acquire Hoyts Cinemas, there can be no assurance that we will be able to complete this transaction. The acquisition is subject to regulatory approvals under applicable antitrust laws and other conditions. There can be no assurance that the required conditions will be satisfied. If we do not complete the purchase, we will not be able to realize the benefits we expect from the acquisition or to expand our operations into the areas served by Hoyts Cinemas. If we are unable to complete the purchase, it could affect the trading price of our common stock.

We may be unable to successfully integrate Hoyts Cinemas into our business or realize the cost savings that we anticipate

Our ability to integrate Hoyts Cinemas into our business and realize the cost savings and synergies that we anticipate are subject to a number of uncertainties, including those referred to above under " Risks Relating to Our Business and Industry We may not benefit from our acquisition strategy." Many of these uncertainties are related to conditions beyond our control, such as general negative economic trends and competition. We may be unable to achieve the anticipated cost savings and synergies from the acquisition.

The interests of our controlling stockholders may conflict with your interests

Anschutz and Oaktree's Principal Activities Group own all of our outstanding Class B common stock. Our Class A common stock has one vote per share while our Class B common stock has ten votes per share on all matters to be voted on by stockholders. As a result, at December 26, 2002, Anschutz and Oaktree's Principal Activities Group controlled approximately 94.8% of the combined voting power of all of our outstanding common stock. For as long as Anschutz and Oaktree's Principal Activities Group continue to own shares of common stock representing more than 50% of the combined voting power of our common stock, they will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Anschutz and Oaktree's Principal Activities Group will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Anschutz and Oaktree's Principal Activities Group but not to other stockholders. In addition, Anschutz and Oaktree's Principal Activities Group and their affiliates have controlling interest in companies in related and unrelated industries, including interests in the sports, motion picture production and entertainment industries. In the future, they may combine our company with one or more of their other holdings.

Our substantial lease and debt obligations could impair our financial condition

We have substantial lease and debt obligations. For fiscal 2002, our total rent expense and interest expense were approximately $231.0 million and $61.7 million, respectively. As of December 26, 2002, we had total long-term obligations of $678.4 million. As of December 26, 2002, we had current contractual cash obligations of approximately $245.1 million. For a detailed discussion of our contractual cash obligations and other commercial commitments over the next several years, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commitments" provided below.

If we are unable to meet our lease and debt service obligations, we could be forced to restructure or refinance our obligations and seek additional equity financing or sell assets. We may be unable to restructure or refinance our obligations and obtain additional equity financing or sell assets on satisfactory terms or at all. As a result, inability to meet our lease and debt service obligations could cause us to default on those obligations. Many of our lease agreements and the agreements governing the terms of our debt obligations contain restrictive covenants that limit our ability to take specific actions or require us not to allow specific events to occur and prescribe minimum financial maintenance requirements that we must meet. If we violate those restrictive covenants or fail to meet the minimum financial requirements contained in a lease or debt instrument, we would be in default under that instrument, which could, in turn, result in defaults under other leases and debt instruments. Any such defaults could materially impair our financial condition.

We are a holding company with no operations of our own

We are a holding company with no operations of our own. Consequently, our ability to service our subsidiaries' debt and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. The distribution of those earnings, or advances or other distributions of funds by these subsidiaries to us, all of which are subject to statutory or contractual restrictions, are contingent upon the subsidiaries' earnings and are subject to various business considerations.

Our certificate of incorporation and bylaws contain anti-takeover protections, which may discourage or prevent a takeover of our company, even if an acquisition would be beneficial to our stockholders

Provisions contained in our certificate of incorporation and bylaws, as well as provisions of the Delaware General Corporation Law, could delay or make it more difficult to remove incumbent directors or for a third party to acquire us, even if a takeover would benefit our stockholders.

Our issuance of shares of preferred stock could delay or prevent a change of control of our company

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 50,000,000 shares of preferred stock, par value $0.001 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders, even where stockholders are offered a premium for their shares.

Our issuance of preferred stock could dilute the voting power of the common stockholders

The issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of our other classes of voting stock either by diluting the voting power of our other classes of voting stock if they vote together as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our other classes of voting stock.

Our issuance of preferred stock could adversely affect the market value of our common stock

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price causing economic dilution to the holders of common stock.

Our stock price may be volatile and decline substantially

The stock market in general has experienced extreme price and volume fluctuations in recent years. These broad market fluctuations may adversely affect the market price of our Class A common stock, regardless of our actual operating performance. You may be unable to resell your shares at or above the purchased market price because of a number of factors, including actual or anticipated quarterly fluctuations in our operating results; changes in expectations of future financial performance or changes in estimates of securities analysts; changes in the market valuations of other companies; announcements relating to strategic relationships, acquisitions or industry consolidation; and general economic, market and political conditions not related to our business.

Our results of operations fluctuate on a seasonal basis and may be unpredictable, which could increase the volatility of our stock price

Our revenues are usually seasonal because of the way the major film distributors release films. Generally, the most marketable movies are released during the summer and the holiday season. Poor performance of these films, or a disruption in the release of films during these periods, could hurt our results for the entire fiscal year. An unexpected "hit" film during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and our results of operations for one quarter are not necessarily indicative of our results of operations for any other quarter. These variations in results could cause increased volatility in our stock price.

The substantial number of shares that will be eligible for sale in the near future could cause the market price for our Class A common stock to decline

We cannot predict the effect, if any, that market sales of shares of Class A common stock or the availability of shares of Class A common stock for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, could cause the market price of our Class A common stock to decline.

As of December 26, 2002, we had outstanding 27,493,575 unregistered shares of Class A common stock and 85,287,957 shares of Class B common stock that may convert into Class A common stock on a one-for-one basis. All of such 112,781,532 shares of unregistered common stock constitute "restricted securities" under the Securities Act of 1933. Provided the holders comply with the applicable holding periods, volume limits and other conditions prescribed in Rule 144 under the Securities Act, these unregistered shares of common stock become freely tradable at various times on or after April 12, 2003.

Anschutz, Oaktree's Principal Activities Group and certain other significant stockholders are able to sell their shares pursuant to the registration rights that we have granted as described in "Description of Capital Stock Registration Rights" in our prospectus dated May 8, 2002. We cannot predict whether substantial amounts of our Class A common stock will be sold in the open market in anticipation of, or following, any divestiture by Anschutz, Oaktree's Principal Activities Group or our directors or executive officers of their shares of our common stock.

If we complete the acquisition of Hoyts Cinemas, we have agreed to issue up to 4,761,904 shares of our Class A common stock as part of the purchase price. The Class A common stock issued will constitute "restricted securities" under the Securities Act and, in addition, will be subject to contractual restrictions prohibiting their sale or transfer, subject to limited exceptions, for a period of twelve months after the closing date of our acquisition of Hoyts Cinemas for all of the shares issued to Hoyts Cinemas and an additional six months after that for one half of those shares. Following the expiration of the contractual prohibition, and assuming compliance by the holder with the holding periods, volume limits and other conditions prescribed in Rule 144 under the Securities Act, these unregistered shares of common stock will become freely tradable at various times on or after the first anniversary of the issuance of such shares.

Additionally, as of December 26, 2002, approximately 9,225,157 shares of our Class A common stock will be issuable upon exercise of stock options that vest and are exercisable at various dates through January 29, 2007. Of such options, as of December 26, 2002, 157,163 were exercisable. All of such shares subject to vested options are registered and will be freely tradable when the option is exercised unless such shares are acquired by an affiliate of Regal, in which case the affiliate may only sell the shares subject to the volume limitations imposed by Rule 144 of the Securities Act of 1933.

The sale of a substantial number of shares may make it difficult for us to sell equity securities in the future

Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. If we are unable to sell equity securities at times and prices that we deem appropriate, our ability to fund growth could be adversely affected.

Forward-looking statements

Some of the information in this Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-K, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain risk factors as more fully discussed under "Risk Factors" above.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Regal Entertainment Group:

We have audited the accompanying consolidated balance sheet of Regal Entertainment Group and subsidiaries as of December 26, 2002 and the combined balance sheet of Regal Entertainment Group (a combination of certain theatre interests of Anschutz, see note 1) as of January 3, 2002, and the related statements of operations, stockholders' equity and parent's investment, and cash flows for the year ended December 26, 2002 and the period under common control (March 1, 2001 to January 3, 2002). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regal Entertainment Group and subsidiaries as of December 26, 2002 and Regal Entertainment Group (a combination of certain theatre interests of Anschutz, see note 1) as of January 3, 2002, and the results of their operations and their cash flows for the year ended December 26, 2002 and the period ended January 3, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets during the year ended December 26, 2002.

/s/ KPMG LLP

Nashville, Tennessee
January 24, 2003

REGAL ENTERTAINMENT GROUP (NOTE 1)

CONSOLIDATED AND COMBINED BALANCE SHEETS

	December 26, 2002	January 3, 2002
	(in millions, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 276.0	$ 68.0
Restricted cash	22.5	28.1
Trade and other receivables, net	30.5	9.6
Inventories	6.7	4.2
Prepaid expenses and other current assets	39.7	20.0
Assets held for sale	9.7	2.8
Deferred income tax asset	4.7	
TOTAL CURRENT ASSETS	389.8	132.7
PROPERTY AND EQUIPMENT:		
Land	134.7	60.0
Buildings, leasehold improvements and equipment	1,674.3	525.6
Construction in progress	6.5	
Total property and equipment	1,815.5	585.6
Accumulated depreciation and amortization	(160.0)	(32.8)
Total property and equipment, net	1,655.5	552.8

	December 26, 2002	January 3, 2002
INVESTMENT IN REGAL CINEMAS, INC.		292.7
GOODWILL	227.5	136.2
OTHER NONCURRENT ASSETS	37.4	8.3
TOTAL ASSETS	$ 2,310.2	$ 1,122.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	$ 17.0	$ 15.6
Accounts payable	154.0	67.5
Accrued expenses	60.0	41.8
Deferred revenues	49.4	27.6
Bankruptcy claims and liabilities	23.6	43.9
TOTAL CURRENT LIABILITIES	304.0	196.4
LONG-TERM DEBT	561.5	420.6
LEASE FINANCING ARRANGEMENTS	96.0	
CAPITAL LEASE OBLIGATIONS	3.9	2.7
DEFERRED TAX LIABILITY	21.3	3.8
OTHER NONCURRENT LIABILITIES	49.9	32.6
TOTAL LIABILITIES	1,036.6	656.1
MINORITY INTEREST	2.8	36.6
MANDATORY REDEEMABLE PREFERRED STOCK		47.0
STOCKHOLDERS' EQUITY:		
Contributed capital		378.1
Class A common stock, $0.001 par value; 500,000,000 shares authorized, 46,448,382 and 0 shares issued and outstanding at December 26 and January 3, 2002, respectively		
Class B common stock, $0.001 par value; 200,000,000 shares authorized, 85,287,957 and 0 shares issued and outstanding at December 26 and January 3, 2002, respectively	0.1	
Preferred stock, $0.001 par value; none issued and outstanding		
Additional paid in capital	1,216.1	
Unamortized deferred stock compensation	(19.5)	
Retained earnings	74.1	4.9
TOTAL STOCKHOLDERS' EQUITY	1,270.8	383.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,310.2	$ 1,122.7

See accompanying notes to financial statements.

REGAL ENTERTAINMENT GROUP (NOTE 1)

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(in millions, except share and per share data)

	Year Ended December 26, 2002	Period Ended January 3, 2002
REVENUES:		

	Year Ended December 26, 2002	Period Ended January 3, 2002
Admissions	$ 1,453.7	$ 382.5
Concessions	588.3	153.3
Other operating revenue	98.2	21.1
TOTAL OPERATING REVENUE	2,140.2	556.9
OPERATING EXPENSES:		
Film rental and advertising costs	790.3	212.9
Cost of concessions	84.4	18.1
Other theatre operating expenses	757.1	227.5
General and administrative expenses	65.1	21.4
Merger and restructuring expenses and amortization of deferred stock compensation	18.9	
Depreciation and amortization	134.4	42.6
Loss on disposal and impairment of operating assets	6.4	0.3
TOTAL OPERATING EXPENSES	1,856.6	522.8
INCOME FROM OPERATIONS	283.6	34.1
OTHER INCOME (EXPENSE):		
Interest expense, net	(61.7)	(21.4)
Minority interest in earnings of consolidated subsidiaries	(13.4)	0.4
Other, net		(4.6)
TOTAL OTHER EXPENSE, NET	(75.1)	(25.6)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	208.5	8.5
PROVISION FOR INCOME TAXES	89.8	3.6
INCOME BEFORE EXTRAORDINARY ITEM	118.7	4.9
EXTRAORDINARY ITEM:		
Loss on extinguishment of debt	1.5	
NET INCOME	$ 117.2	$ 4.9
LOSS ON REDEMPTION OF PREFERRED STOCK	28.2	
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 89.0	$ 4.9
EARNINGS PER SHARE:		
Basic	$ 0.83	$ 0.30
Diluted	$ 0.79	$ 0.28
AVERAGE SHARES OUTSTANDING (in thousands):		
Basic	107,738	16,104
Diluted	112,284	17,368

See accompanying notes to financial statements.

REGAL ENTERTAINMENT GROUP (NOTE 1)

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY AND PARENT'S INVESTMENT

(in millions, except per share data)

	Class A Common Stock		Class B Common Stock						
	Shares	**Amount**	**Shares**	**Amount**	**Contributed Capital**	**Additional Paid-In Capital**	**Deferred Stock Compensation**	**Retained Earnings**	**Total**
Balances, March 2, 2001		$		$	$	$	$	$	$
Contribution of controlling equity interest in United Artists, Edwards, and Regal Cinemas					378.1				378.1
Net income and comprehensive income								4.9	4.9
Balances, January 3, 2002					378.1			4.9	383.0
Contribution of additional United Artists common stock					28.6				28.6
Contribution of Regal CineMedia					10.0				10.0
Contribution of additional Edwards common stock					31.1				31.1
Exchange of equity interests in United Artists, Edwards, Regal Cinemas, and Regal CineMedia for common stock of Regal	27.5		84.6	0.1	(447.8)	881.6	(22.9)		411.0
Contribution of additional equity interests in United Artists in exchange for common stock of Regal			0.7			10.3			10.3
Loss on redemption of redeemable preferred stock								(28.2)	(28.2)
Initial public offering, net of costs	18.0					314.8			314.8
Amortization of deferred stock compensation							2.8		2.8
Exercise of stock options	1.0					6.8			6.8
Tax benefit from exercise of stock options						3.2			3.2
Forfeiture of stock options						(0.6)	0.6		
Cash dividends declared, $0.15 per share								(19.8)	(19.8)
Net income and comprehensive income								117.2	117.2
Balances, December 26, 2002	46.5	$	85.3	$ 0.1	$	$ 1,216.1	$ (19.5)	$ 74.1	$ 1,270.8

Class A Common Stock	Class B Common Stock

See accompanying notes to financial statements.

REGAL ENTERTAINMENT GROUP (NOTE 1)

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 26, 2002	Period Ended January 3, 2002
	(in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 117.2	$ 4.9
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	134.4	42.6
Amortization of deferred stock compensation	2.8	
Extraordinary loss on debt extinguishment, net	1.5	
Minority interest in earnings of consolidated subsidiaries	13.4	(0.4)
Deferred income taxes	73.5	(2.4)
Loss on disposal and impairment of operating assets	6.4	0.3
Changes in operating assets and liabilities (excluding effects of acquisition and reorganization):		
Trade and other receivables	(10.9)	(3.0)
Inventories	0.8	
Prepaid expenses and other current assets	(3.9)	(2.7)
Accounts payable	28.2	11.1
Accrued expenses and other liabilities	9.8	11.2
NET CASH PROVIDED BY OPERATING ACTIVITIES	373.2	61.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(108.2)	(20.8)
Proceeds from disposition of assets	10.1	19.5
Cash used to purchase outstanding United Artists minority interest	(34.0)	
Decrease in other long term assets	9.5	2.0
Decrease in reimbursable construction advances	1.9	
Decrease in restricted cash	5.7	8.7
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(115.0)	9.4
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash used to redeem Edwards preferred stock	(75.3)	
Cash used to redeem Edwards senior subordinated notes	(11.3)	
Cash used to payoff Edwards term loan	(180.0)	
Cash used to payoff United Artists term credit facility	(240.0)	
Cash used to pay dividend	(19.8)	
Net proceeds from senior subordinated notes offering	155.3	
Net proceeds from initial public offering	314.8	
Proceeds from stock option exercises	6.9	
Payment of debt acquisition costs	(10.5)	
Net payments on long term obligations	(53.1)	(13.2)

	Year Ended December 26, 2002	Period Ended January 3, 2002
Decrease in cash overdraft		(1.5)
Payment of bankruptcy claims and liabilities	(104.3)	
Cash of subsidiaries at acquisition date	167.1	36.2
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(50.2)	21.5
NET CASH USED IN REORGANIZATION		(24.5)
NET INCREASE IN CASH AND CASH EQUIVALENTS	208.0	68.0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	68.0	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 276.0	$ 68.0
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 17.1	$ 0.1
Cash paid for interest	$ 42.8	$ 6.1
SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES:		
Exchange of minority shares in Regal Cinemas for Regal Entertainment Group	$ 361.9	$
Exchange of minority shares in Edwards for Regal Entertainment Group	$ 44.2	$
Contribution of additional shares purchased from minority interests	$ 80.0	$

See accompanying notes to financial statements.

REGAL ENTERTAINMENT GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

DECEMBER 26, 2002

1 THE COMPANY AND BASIS OF PRESENTATION

Regal Entertainment Group (the "Company" or "Regal") is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries and United Artists Theatre Company ("United Artists") and its subsidiaries. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards") and Regal CineMedia Corporation ("Regal CineMedia"). The terms Regal, Regal Cinemas, United Artists, Edwards and Regal CineMedia shall be deemed to include the respective subsidiaries of such entities when used in discussions included herein regarding the current operations or assets of such entities.

Regal operates the largest theatre circuit in the United States, consisting of 5,663 screens in 524 theatres in 36 states as of December 26, 2002. Regal CineMedia focuses on the development of ancillary revenues. The Company formally operates on a 52-week fiscal year with each quarter generally consisting of 13 weeks, unless otherwise noted. The Company's fiscal year ends on the first Thursday after December 25, which in certain years results in a 53-week fiscal year.

During 2000 and 2001, United Artists and a majority of its subsidiaries at that time (the "United Artists Bankrupt Entities"), Edwards Theatre Circuit Affiliated Group and its subsidiaries at that time (the "Edwards Bankrupt Entities", which were merged into Edwards in connection with the bankruptcy proceedings of the Edwards Bankrupt Entities described below), and Regal Cinemas, Inc. and its subsidiaries at that time (the "Regal Cinemas, Inc. Bankrupt Entities") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Courts identified below (the "Applicable Bankruptcy Court"), as well as joint plans of reorganization. The joint plans of reorganization, as amended, for the United Artists Bankrupt Entities and the Edwards Bankrupt Entities were approved by the Applicable Bankruptcy Court, and became effective on March 2, 2001 ("UA Effective Date") for the United Artists Bankrupt Entities and September 29, 2001 ("Edwards Effective Date") for the Edwards Bankrupt Entities. The Applicable Bankruptcy Court approved the Regal Cinemas, Inc. Bankrupt Entities' joint plan of reorganization on December 7, 2001, and it became effective on January 29, 2002. Also on that date, Anschutz and the other shareholders of Regal Cinemas, Inc. exchanged their equity interests in Regal Cinemas, Inc. for equity interests in Regal Cinemas and as a result, Regal Cinemas, Inc. became a wholly owned subsidiary of Regal Cinemas. Regal Cinemas was formed for the primary purpose of acquiring and holding the shares of common stock of Regal Cinemas, Inc. Edwards was formed in connection with the reorganization of the Edwards Bankrupt Entities to, among other things, effect the substantive consolidation of the Edwards Bankrupt Entities through their merger into Edwards. As a result of the merger transaction, Edwards succeeded to all of the assets and liabilities of the Edwards Bankrupt Entities.

Anschutz acquired controlling equity interests in United Artists, Edwards and Regal Cinemas, Inc. upon each of the entities' emergence from bankruptcy reorganization. Anschutz's contributions of these equity interests to the Company were recorded in the consolidated financial statements of the Company at the combined historical cost basis of Anschutz, which represents Anschutz's net cost to acquire certain debt of the United Artists Bankrupt Entities, the Edwards Bankrupt Entities and the Regal Cinemas, Inc. Bankrupt Entities prior to their filing voluntary petitions for relief under Chapter 11. Anschutz exchanged such debt holdings for controlling equity interests following the emergence from bankruptcy of the United Artists Bankrupt Entities, the Edwards Bankrupt Entities and the Regal Cinemas, Inc. Bankrupt Entities. As a result of the acquisition by Anschutz, Regal's fiscal 2001 results of operations include only the results of operations of United Artists from the UA Effective Date to January 3, 2002, and of Edwards from the Edwards Effective Date to December 27, 2001 (fiscal year 2001). Accordingly, Regal's statements of operations for the period ended January 3, 2002 do not include the results of operations of Regal Cinemas, Inc. and only include the results of operations of United Artists and Edwards from the UA Effective Date and the Edwards Effective Date, respectively.

While the actual date that Regal Cinemas, Inc. emerged from bankruptcy and Anschutz acquired its controlling equity interest in Regal Cinemas was January 29, 2002, for financial reporting purposes the date is deemed to have occurred on January 24, 2002. As such, the Company's fiscal 2002 results of operations include the results of operations of United Artists (from January 4, 2002), Edwards (from December 28, 2001), and Regal Cinemas (from January 24, 2002). At January 3, 2002, the Company's investment in Regal Cinemas, Inc. was accounted for as an investment in the accompanying combined balance sheet.

Commencing in 2002, the Company elected to adopt the fiscal year end of Regal Cinemas, Inc. Regal Cinemas, Inc.'s 2001 fiscal year ended on December 27, 2001. As a result of the election to conform the reporting periods, United Artists' results of operations reflected in the accompanying financial statements reflect operating results from January 4, 2002. For the period from December 28, 2001 through January 3, 2002 (the date of United Artists' fiscal 2001 year end), United Artists recorded revenue of approximately $17.8 million and net income of approximately $2.5 million.

On March 5, 2002, Anschutz acquired a controlling equity interest in an insolvent digital video advertising company, Next Generation Network, Inc. ("NGN"), for approximately $2.8 million in an out-of-court restructuring of NGN's indebtedness. Anschutz funded approximately $7.2 million to NGN through bridge loans and other consideration. As described below, on April 12, 2002, Anschutz contributed all of its capital stock of NGN, representing approximately 95% of the outstanding capital stock of NGN, and the outstanding principal balances of such bridge loans and other consideration to Regal CineMedia in exchange for 100,000 shares of capital stock of Regal CineMedia, which was then exchanged for the Company's Class B common stock in the exchange transaction described below.

On March 8, 2002, the holders of 100% of the capital stock of Regal Cinemas, Edwards and Regal CineMedia entered into an agreement to exchange their stock for shares of stock in Regal. Regal also agreed to exchange its stock for approximately 90% of United Artists' outstanding common stock.

On April 12, 2002, through a series of transactions, Regal issued (1) 70,538,017 shares of Class B common stock to Anschutz in exchange for its controlling equity interests in Regal Cinemas, United Artists, Edwards and Regal CineMedia, (2) 14,052,320 shares of Class B common stock to Oaktree's Principal Activities Group in exchange for its contribution of capital stock of Regal Cinemas and Edwards, and (3) 27,493,575 shares of Class A common stock to the other stockholders of Regal Cinemas, United Artists, Edwards and Regal CineMedia party to the exchange agreement in exchange for their capital stock of Regal Cinemas, United Artists, Edwards and Regal CineMedia.

Upon the closing of the exchange transaction, the holders of outstanding options of United Artists and Regal Cinemas received replacement options to purchase 8,832,147 shares of Regal Class A common stock at prices ranging from $4.44 to $12.87 per share. Regal also granted to certain holders of United Artists warrants in exchange for their contribution to Regal of outstanding warrants to purchase 3,750,000 shares of United Artists common stock, warrants to purchase 3,928,185 shares of Class B common stock at $8.88 per share and warrants to purchase 296,129 shares of Class A common stock at $8.88 per share.

Following the exchange transaction, Anschutz transferred beneficial ownership of 1,455,183 shares of Class B common stock to Oaktree's Principal Activities Group. In addition, Anschutz acquired an additional 697,620 shares of Class B common stock in May 2002. As a result, Anschutz owns approximately 81.8% of Regal's outstanding Class B common stock, representing as of December 26, 2002 approximately 77.6% of the combined voting power of Regal's outstanding common stock and has the ability to direct the election of members of Regal's board of directors and to determine the outcome of other matters submitted to the vote of Regal's stockholders.

On April 17, 2002, Regal Cinemas, Inc. acquired all of the outstanding capital stock of Edwards from REH for an aggregate purchase price of approximately $272.5 million. As a result of Regal Cinemas, Inc. being under common control with Edwards, the transaction was accounted for as a contribution of Edwards to Regal Cinemas, Inc. by REH, at the historical cost basis of Edwards. In connection with the acquisition of Edwards, Regal Cinemas issued $150 million principal amount of $9^3/_8$% senior subordinated notes due 2012, under the indenture pursuant to which Regal Cinemas sold $200 million principal amount of $9^3/_8$% senior subordinated notes due 2012 in January 2002. The proceeds of the notes issued on April 17, 2002, together with cash on hand at Regal Cinemas, Inc., were used by Regal Cinemas, Inc. to acquire Edwards from REH. REH used the proceeds from its sale of Edwards to repay approximately $180.7 million of senior bank debt, including accrued interest, of Edwards, to redeem approximately $12.0 million of Edwards Subordinated Notes (as defined below), including accrued interest, primarily held by Anschutz and Oaktree's Principal Activities Group, and to redeem approximately $75.3 million of redeemable preferred stock of Edwards held by Anschutz, Oaktree's Principal Activities Group and members of the Edwards family. The difference between the carrying amount and redemption price of the redeemable preferred stock of $28.2 million was recorded as a charge to equity and is reflected as a reduction of net income available to common stockholders in the accompanying consolidated statement of operations for the year ended December 26, 2002. In addition, the Company recorded an extraordinary loss of approximately $1.5 million as a result of the early redemption of the Edwards Subordinated Notes. As a result of Regal Cinemas, Inc.'s acquisition of Edwards, Edwards became a wholly owned subsidiary of Regal Cinemas, Inc. and became a guarantor under Regal Cinemas, Inc.'s senior credit facility and Regal Cinemas' $9^3/_8$% senior subordinated notes.

In May 2002, the Company issued 18.0 million shares of its Class A common stock in an initial public offering. The initial public offering was effected through two Form S-1 Registration Statements (File Nos. 333-84096 and 333-87870) that were declared effective by the Securities and Exchange Commission on May 8, 2002. All 18.0 million shares were sold at an initial public offering price of $19.00 per share, for an aggregate offering price of $342 million, through a syndicate of underwriters managed by Credit Suisse First Boston Corporation, Lehman Brothers Inc., Bear, Stearns & Co. Inc. and Salomon Smith Barney Inc. The Company paid underwriting discounts and commissions totaling approximately $23.1 million in connection with the offering. In addition, the Company incurred additional expenses of approximately $4.1 million in connection with the offering. The net offering proceeds, after deducting underwriting discounts, commissions and other offering expenses, were approximately $314.8 million. The Company used a portion of the net proceeds to repay approximately $240.7 million of principal and accrued interest owed by United Artists under the United Artists Term Credit Facility (as defined below) and approximately $15.0 million to fund operating costs and capital expenditures of Regal CineMedia. During the remainder of the 2002 fiscal year, the Company used an additional $34.0 million of the net proceeds to acquire the remaining outstanding shares of common stock and warrants to purchase common stock of United Artists, approximately $19.8 million to fund the Company's fourth quarter 2002 dividend payment and the remaining $5.3 million for general corporate purposes.

On August 16, 2002, REH acquired the remaining outstanding shares of common stock of United Artists held by the United Artists' minority stockholders and warrants to acquire shares of common stock of United Artists held by various institutional holders for approximately $34.0 million. Immediately prior to the acquisition, the common stock of United Artists was the only outstanding class of voting stock, of which the minority stockholders owned approximately 9.9%, and REH owned the remaining 90.1%. The $22.3 million difference between the carrying amount and purchase price of the minority interest was recorded as a component of goodwill in the accompanying consolidated balance sheet at December 26, 2002. As a result of this transaction, United Artists became a wholly owned subsidiary of REH.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Combination

The consolidated financial statements include the accounts of Regal and the combined financial statements include companies under the common control of Anschutz through April 12, 2002. All significant intercompany accounts and transactions have been eliminated in consolidation. The portion of United Artists equity relating to shares not owned by the Company and the related earnings or losses were included in minority interest.

Revenue Recognition

Revenues are generated principally through admissions and concessions sales with proceeds received in cash at the point of sale. Other operating revenues consist primarily of product advertising (including vendor programs) and other ancillary revenues which are recognized as income in the period earned. We recognize payments received attributable to the marketing and advertising services provided by us under certain vendor programs as revenue in the period in which the related impressions are delivered. Such impressions are measured by the concession product sales volume, which is a mutually agreed upon proxy of attendance and reflects our marketing and advertising services delivered to our vendors. Proceeds received from advance ticket sales and gift certificates are recorded as deferred revenue. The Company recognizes revenue associated with gift certificates and advanced ticket sales at such time as the items are redeemed, they expire or redemption becomes unlikely. The determination of the likelihood of redemption is based on an analysis of our historical redemption trends.

Cash Equivalents

The Company considers all unrestricted highly liquid debt instruments and investments purchased with an original maturity of three months or less to be cash equivalents. At December 26, 2002, the Company held substantially all of its cash in temporary cash investments in the form of certificates of deposit and variable rate investment accounts with major financial institutions.

Restricted Cash

Edwards established a $35.0 million cash reserve, which was funded on the Edwards Effective Date for the payment of certain allowed unsecured claims, which thereafter will be the lesser of (i) $20 million; or (ii) the sum of the unpaid: (a) disputed claims that have elected the cash option; and (b) allowed claims that have elected the cash option. The restricted cash has been placed in a segregated account in which the holders of these allowed claims that have elected the cash option have a first priority security interest. The restricted cash is classified as a current asset as the related claims are classified as current liabilities.

Inventories

Inventories consist of concession products and theatre supplies. The Company states inventories on the basis of first-in, first-out (FIFO) cost, which is not in excess of net realizable value.

Reimbursable Construction Advances

Reimbursable construction advances consist of amounts due from landlords to fund a portion of the construction costs of new theatres that the Company will operate pursuant to lease agreements. The landlords repay the amounts either during construction on a percentage of completion basis, or upon completion of the theatre. Reimbursable construction advances are presented as a component of trade and other receivables in the accompanying balance sheets.

Property and Equipment

The Company states property and equipment at cost. Major renewals and improvements are capitalized, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets, are expensed currently. Gains and losses from disposition of property and equipment are included in income and expense when realized. The Company records depreciation and amortization using the straight-line method over the following estimated useful lives:

Buildings	20-30 years
Equipment	4-20 years
Leasehold improvements	Lesser of term of lease or asset life

Included in property and equipment is $94.2 million and $2.7 million of assets accounted for under capital leases and lease financing arrangements as of December 26, 2002 and January 3, 2002, respectively. The Company records amortization using the straight-line method over the shorter of the lease terms or the estimated useful lives noted above.

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 26, 2002, are as follows (in millions):

Balance as of January 3, 2002	$136.2
Exchange of minority shares in Regal Cinemas and Edwards for Regal Entertainment Group	82.4

Contribution of additional shares of United Artists and Edwards purchased from minority security holders	72.3
Adjustments related to certain pre-acquisition deferred tax assets of Regal Cinemas, United Artists and Edwards	(63.7)
Other	0.3
Balance as of December 26, 2002	227.5

SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for the Company in the first quarter of fiscal 2002. This standard revised the financial accounting and reporting for goodwill and certain intangible assets. Among the revisions were the discontinuation of the amortization of goodwill and certain intangible assets and the periodic testing (at least annually) for the impairment of goodwill at a reporting unit level and additional financial statement disclosures. The Company has identified its reporting units under SFAS No. 142 to be the demographic market areas in which the Company conducts its theatre operations. The fair value of the Company's identified reporting units were estimated using the expected present value of associated future cash flows and market values of the underlying theatres within each reporting unit. The Company's initial and annual goodwill impairment tests for fiscal 2002 indicated that the fair value of its reporting units exceeded their carrying value and therefore, at this time, goodwill was not deemed to be impaired. As required by SFAS No. 142, the discontinuation of goodwill (excess reorganization value) amortization has not been retroactively applied to the results for the period prior to adoption. Amortization relating to goodwill was $9.6 million for the period ended January 3, 2002. The following is pro-forma information of the Company assuming that SFAS No. 142 had been in effect in during the period ended January 3, 2002 and goodwill amortization expense had not been recorded (in millions, except for share data):

		Period ended January 3, 2002
Net income available to common stockholders, as reported:	$	4.9
Add: Goodwill amortization, net of related tax effect		5.8
Adjusted pro forma net income	$	10.7
Diluted earnings per share:		
As reported	$	0.28
Pro forma	$	0.62

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. The Company evaluates assets for impairment on an individual theatre basis, which management believes is the lowest level for which there are identifiable cash flows. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the asset, the Company recognizes an impairment charge in the amount by which the carrying value of the assets exceeds their fair market value. The fair value of assets is determined using the present value of the estimated future cash flows or the expected selling price less selling costs for assets of which the Company expects to dispose.

Other Assets

Other assets include debt acquisition costs, which are deferred and amortized over the terms of the related agreements using the straight-line method which approximates the interest method. Debt acquisition costs as of December 26, 2002 and January 3, 2002 were $26.3 million and $2.1 million, respectively, net of accumulated amortization of $2.7 million and $0.4 million, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. In addition, income tax rules and regulations are subject to interpretation and require judgment by the Company and may be challenged by the taxation authorities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized.

The Company expects that certain deferred income tax assets are not more likely than not to be recovered and therefore, has set up a valuation allowance. The Company reassesses its need to establish a valuation allowance for its deferred income taxes on an ongoing basis. Should the Company realize certain tax assets with a valuation allowance that relate to pre-acquisition periods, goodwill would be reduced.

Deferred Revenue

Deferred revenue relates primarily to vendor programs, gift certificates and advance ticket sales, and we recognize our deferred revenue associated with such items as described above in this Note 2 under "Revenue Recognition".

Deferred Rent

The Company recognizes rent on a straight-line basis after considering the effect of rent escalation provisions resulting in a level monthly rent expense for each lease over its term. The deferred rent liability is included in other liabilities.

Film Costs

The Company estimates its film cost expense and related film cost payable based on management's best estimate of the ultimate settlement of the film costs with the distributors. Film costs and the related film costs payable are adjusted to the final film settlement in the period that the Company settles with the distributors.

Advertising and Start-Up Costs

The Company expenses advertising costs as incurred. Start-up costs associated with a new theatre are also expensed as incurred.

Stock-based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to SFAS No. 123's fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. Under SFAS No. 123, entities are permitted to recognize as expense the fair value of all stock-based awards on the date of grant over the vesting period and alternatively allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income or loss and earnings or loss per share disclosures as if the fair-value-based method defined in SFAS No. 123 had been applied.

The Company has elected to continue accounting for its stock option plan using the intrinsic value method in accordance with the provisions of APB No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, which requires compensation costs to be recognized for the excess of the fair value of options on the date of grant over the option exercise price. Had the fair value of options granted under the Company's stock option plan described in Note 11 "Capital Stock and Stock Option Plan" been recognized in accordance with SFAS No. 123, the Company's reported net income and diluted earnings per share would have been recorded in the amounts indicated below (in millions, except per share data):

	Year ended December 26, 2002	Period ended January 3, 2002
Net income available to common stockholders, as reported:	$ 89.0	$ 4.9
	(3.1)	(0.6)

	Year ended December 26, 2002		Period ended January 3, 2002	
Less additional stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects				
Pro forma net income		85.9		4.3
Diluted earnings per share:				
As reported	$	0.79	$	0.28
Pro forma		0.77		0.25

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company applied the principles of purchase and reorganization accounting when recording the acquisitions of controlling equity interests by Anschutz and the exchange of stock for minority interests and the emergence from bankruptcy of the theatre companies. These accounting principles require that the Company estimate the fair value of the individual assets and liabilities including estimates of bankruptcy-related claims. The valuation of the fair value of the assets and liabilities involves a number of judgments and estimates that could differ significantly from actual results.

Segments

The Company manages its business under one reportable segment theatre exhibition operations. As of December 26, 2002, Regal CineMedia did not meet the quantitative thresholds under SFAS No. 131*,* "Disclosures about Segments of an Enterprise and Related Information," to qualify as a separate reportable segment.

Comprehensive Income

Net income and comprehensive income are the same for all periods presented.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations," and primarily addresses the accounting for the cost of an acquired business (i.e., the purchase price allocation), including any subsequent adjustment to its cost. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting) and supersedes APB 17, "Intangible Assets." The most significant changes made by SFAS No. 141 involve the requirement to use the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method along with the establishment of new criteria for determining whether the Company should recognize intangible assets acquired in a business combination separately from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's financial position or results of operations.

Pursuant to SFAS No. 142, the Company no longer amortizes goodwill, reorganizational value in excess of amounts allocated to identifiable assets or indefinite lived intangible assets, and will test for impairment at least annually at the reporting unit level. Other long-lived assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," issued in August 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 for all goodwill and other intangible assets, including excess reorganization value, recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. Amortization relating to goodwill and excess reorganization value was $9.6 million for the period ended January 3, 2002. The Company's initial and annual goodwill impairment tests for fiscal 2002 indicated that the fair value of its reporting units exceeded their carrying value and therefore, at this time, goodwill was not deemed to be impaired.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of the fair value of obligations associated with the retirement of long-lived assets when there is a legal obligation to incur such costs. Under SFAS No. 143, the costs of retiring an asset will be recorded as a liability when the retirement obligation arises and will be amortized to expense over the life of the asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of the adoption of this standard and has not yet determined the effect of adoption on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which provides clarifications of certain implementation issues with SFAS No. 121 along with additional guidance on the accounting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 and applies to all long-lived assets (including discontinued operations) and consequently amends APB 30, "Reporting the Effects of Disposal of a Segment of a Business." SFAS No. 144 develops one accounting model (based on the model in SFAS No. 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that entities measure long-lived assets that are to be disposed of by sale at the lower of book value or fair value less cost to sell. That requirement eliminates APB 30's requirement that discontinued operations be measured at net realizable value or that entities include under "discontinued operations" in the financial statements amounts for operating losses that have not yet occurred. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) the entity can distinguish from the rest of the entity and (2) the entity will eliminate from the ongoing operations of the entity in a disposal transaction. The Company adopted SFAS No. 144 in the first quarter of 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements including the rescission of Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. The provisions of SFAS No. 145 related to the rescission of Statement 4 is effective for fiscal years beginning after May 15, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses significant issues relating to the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities, and nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 94-3 (EITF 94-3), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)" The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Retroactive application of SFAS No. 146 is prohibited and, accordingly, liabilities recognized prior to the initial application of SFAS No. 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable preexisting guidance.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation will significantly change current practice in the accounting for, and disclosure of, guarantees. Guarantees meeting the characteristics described in the interpretation are required to be initially recorded at fair value, which is different from general current practice of recognition of a liability only when loss is probable and reasonably estimable, as prescribed in SFAS No. 5, "Accounting for Contingencies." The interpretation also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The adoption of this interpretation is not expected to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities an Interpretation of ARB No. 51." This interpretation addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. The Company is evaluating the impact of adopting this interpretation.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to SFAS No. 123's fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions are applicable to all companies with stock-based employee compensation, regardless of whether they account for such compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. The disclosure requirements are effective for fiscal years ending after December 15, 2002. The Company has elected to continue the intrinsic value method of accounting for its employee stock options in accordance with APB Opinion No. 25 and as a result, the adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations.

3 CHAPTER 11 PROCEEDINGS

Prior to and during the reorganization proceedings of the United Artists, Edwards and Regal Cinemas, Inc. Bankrupt Entities, Anschutz acquired claims of creditors of the United Artists Bankrupt Entities, and Anschutz and Oaktree's Principal Activities Group acquired claims of creditors of the Edwards and Regal Cinemas, Inc. Bankrupt Entities that allowed Anschutz to actively negotiate the terms upon which the companies would emerge from reorganization.

The reorganization proceedings of the United Artists, Edwards and Regal Cinemas, Inc. Bankrupt Entities had significant effects on the operations and financial condition of the companies. The United Artists and Regal Cinemas, Inc. Bankrupt Entities adjusted their assets, liabilities and capital structure to reflect estimated fair values at the time of their emergence from their reorganization proceedings and the acquisition of a controlling equity interest by Anschutz. In addition, in connection with their reorganizations, each of the United Artists, Edwards and Regal Cinemas, Inc. Bankrupt Entities were able to selectively close under-performing theatres and negotiate rent reductions and lease termination rights, which improved the financial performance of their asset bases.

Edwards Reorganization

On August 23, 2000, the Edwards Bankrupt Entities filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Central District of California (the "California Bankruptcy Court"). On May 24, 2001, the Edwards Bankrupt Entities filed a plan of reorganization and related disclosure statement, as amended (the "Edwards Plan"). On September 24, 2001, the California Bankruptcy Court confirmed the Edwards Plan. On September 29, 2001, all conditions required for the effectiveness of the Edwards Plan were met, and the Edwards Plan became effective. Pursuant to the Edwards Plan, Anschutz and Oaktree's Principal Activities Group agreed to exchange (i) approximately $14.6 million of their pre-petition secured claims and cash of $41.4 million for $56.0 million in Edwards' Series A preferred stock and 51% of Edwards' newly-issued common stock and (ii) $10.0 million of senior secured debt for $10.0 million of senior unsecured subordinated notes (the "Edwards Subordinated Notes"). For a discussion of Edwards related bankruptcy claims and other related party transactions, see Note 12 "Related Party Transactions".

The Edwards Plan also provided that the Edwards Bankrupt Entities' senior secured lenders receive a payment of $9.5 million of principal and all pre-petition and post-petition accrued and unpaid interest at the applicable non-default rate. In connection with the Edwards Plan, the Edwards Subordinated Notes were issued and the existing secured lenders established a $180.0 million restructured term loan. General unsecured creditors were entitled to receive, at their option, either a cash distribution equal to 90% of the holder's allowed claim or an unsecured seven year note equal to 100% of the allowed claim. The seven year notes provide for semi-annual interest payments, in arrears, beginning on the six-month anniversary of the effective date at a rate of 9% per annum, compounded annually. The notes also require semi-annual principal reduction payments beginning on the six-month anniversary of the Edwards Effective Date. The amounts recorded based upon the acquisition of control by Anschutz of the Edwards Bankrupt Entities were allocated to current assets ($76.7 million), property and equipment ($295.7 million), current liabilities ($102.1 million), debt and lease obligations ($207.0 million), other non-current liabilities ($47.1 million) and minority interest ($11.1 million).

United Artists Reorganization

On September 5, 2000, the United Artists Bankrupt Entities, including United Artists Theatre Circuit, Inc., all as debtors, filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Delaware Bankruptcy Court"), as well as a joint plan of reorganization. On January 22, 2001, the joint plan of reorganization, as amended (the "UA Plan"), was approved by the Delaware Bankruptcy Court and declared effective by the debtors on March 2, 2001. As a consequence of the UA Plan, on March 2, 2001, United Artists' reorganized capital structure consisted of approximately $252.1 million of debt under a restructured bank credit facility (the "United Artists Term Credit Facility"), $57 million of convertible preferred stock and $39.1 million in common equity. Anschutz converted 100% of its senior debt of United Artists into a combination of convertible preferred stock, common stock and warrants to purchase common stock (at an exercise price of $10.00 per share), which, in aggregate, represented approximately 54% of the fully diluted common equity of United Artists. Other senior lenders under United Artists' pre-petition credit facility received common stock in United Artists representing approximately 29% of the fully diluted common equity and subordinated lenders received warrants to purchase common stock at an exercise price of $10.00 per share, which, in the aggregate, represented approximately 7% of the fully diluted common equity, with the remaining 10% of the fully diluted common equity reserved for management stock options.

In addition, a pool of $5.0 million in cash and $1.1 million in payment-in-kind notes was established for distribution on a pro rata basis to unsecured creditors. The payment-in-kind notes earn "in-kind" interest at 8% with one-third of the principal payable during March 2005, one-third payable during March 2006 and the remaining one-third, along with all accrued interest, payable during March 2007.

On the UA Effective Date, United Artists adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). For accounting purposes, the inception date of the reorganized company was deemed to be March 2, 2001. Under fresh-start reporting, the reorganization value of United Artists, which represents the fair value of all of the assets (net of liabilities), was determined through negotiations between the United Artists' management and its pre-petition creditors and was allocated to United Artists' assets based on their relative fair values. The amounts recorded based upon the acquisition of control by Anschutz the United Artists Bankrupt Entities were allocated to current assets ($93.0 million), property and equipment ($228.9 million), deferred taxes and other assets ($143.2 million), current liabilities ($95.9 million), debt and lease obligations ($256.3 million), other non-current liabilities ($6.8 million) and minority interest ($25.8 million).

Regal Cinemas, Inc. Reorganization

On October 11, 2001, the Regal Cinemas, Inc. Bankrupt Entities filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the Middle District of Tennessee (the "Tennessee Bankruptcy Court") under case numbers 301-11305 through 301-11320, seeking court supervision of the Regal Cinemas, Inc. Bankrupt Entities' restructuring efforts. Pursuant to the plan of reorganization (the "Regal Plan"), certain holders of its then existing senior credit facilities (including Anschutz and Oaktree's Principal Activities Group) agreed to exchange approximately $725 million of their pre-petition claims for 100% of Regal Cinemas, Inc.'s newly-issued common stock. Other principal terms of the Regal Plan included:

- cash payment in full of principal and accrued and unpaid interest existing under Regal Cinemas, Inc.'s then existing senior credit facility for certain holders;
- cash payment in full of all other secured claims, relating primarily to Regal Cinemas, Inc.'s equipment financing facility;
- satisfaction and retirement of Regal Cinemas, Inc.'s outstanding subordinated debt by a cash payment equal to approximately 20% of the claims amount; and
- distributions to the holders of general unsecured claims of 100% of such holder's allowed claim.

On December 7, 2001, the Tennessee Bankruptcy Court confirmed the Regal Plan and as a result, Regal Cinemas, Inc. commenced appropriate actions to consummate the Regal Plan and emerged from bankruptcy on January 29, 2002. Also on January 29, 2002, Regal Cinemas, Inc. became a wholly owned subsidiary of Regal Cinemas. The transaction was accomplished by the issuance of 7,500,000 shares of Regal Cinemas common stock in exchange for 100% of the outstanding common stock of Regal Cinemas, Inc. As a result of this exchange, Anschutz and Oaktree's Principal Activities Group acquired approximately 75% of the Regal Cinemas common stock issued upon emergence.

Approximately $1.8 billion of Regal Cinemas, Inc. long-term debt plus approximately $196 million of accrued and unpaid interest was discharged under the terms of the Regal Plan in exchange for total payments of approximately $575.3 million. Regal Cinemas funded these payments through (i) cash on hand, (ii) a term loan ($270.0 million) borrowed under new senior credit facilities, and (iii) the issuance of new senior subordinated notes ($200.0 million).

In connection with Regal Cinemas, Inc.'s emergence from bankruptcy and acquisition of a controlling interest by Anschutz, Regal Cinemas, Inc. made certain adjustments in accordance with SOP 90-7 to reflect its emergence from bankruptcy and simultaneously allocated Anschutz's cost basis to Regal Cinemas, Inc.'s assets and liabilities. The impact of these adjustments resulted in a $511.1 million write-down of Regal Cinemas, Inc.'s assets. The amounts recorded based on the acquisition of control by Anschutz of Regal Cinemas, Inc. were allocated to current assets ($194.0 million), property and equipment ($1,131.8 million), deferred taxes and other assets ($86.7 million), debt and lease obligations ($574.5 million), other amounts and non-current liabilities ($191.3 million) and minority interest ($309.9 million).

4 INTEGRATIONS

During the first quarter of 2002, the Company commenced a plan to restructure certain of its operations to facilitate the integration of Regal Cinemas, United Artists and Edwards. The restructuring principally involved the closing of certain Edwards and United Artists corporate facilities and relocation of the theatre management operations of United Artists and Edwards to Regal Cinemas' offices in Knoxville, Tennessee. The restructuring plan was communicated by Company management to Edwards and United Artists corporate employees during the first quarter of 2002. Such restructuring did not result in any theatre closings.

With respect to the Edwards restructuring plan, the Company terminated 78 corporate employees located in the Edwards Newport Beach, California corporate offices. Of the total Edwards restructuring charge of $3.1 million for the year ended December 26, 2002, approximately $1.1 million related to employee termination benefits and approximately $2.0 million related to other direct exit costs (principally lease termination fees) associated with the closing of Edwards' corporate offices. The United Artists restructuring plan provided for the termination of 102 administrative employees located in the Centennial, Colorado corporate offices along with closure of a film office located in New York City. Total United Artists restructuring charges were $2.9 million for the year ended December 26, 2002, of which approximately $2.0 million related to employee termination benefits and approximately $0.9 million related to direct exit costs for the closure of the New York City film office and certain legal and professional fees.

Integration costs and reorganization expenses ($10.1 million) and stock compensation amortization ($2.8 million) are also included in "Operating Expenses Merger and restructuring expenses" in the accompanying consolidated statements of operations for the year ended December 26, 2002. Such integration costs and reorganization expenses are principally related to legal and professional fees ($4.5 million) associated with the bankruptcy proceedings of the several bankrupt entities and other costs ($5.6 million) described above that are associated with the integration of Regal Cinemas, United Artists and Edwards. As of December 26, 2002, the Company has paid approximately $3.3 of Edwards and United Artists restructuring expenses. The Company completed the Edwards and United Artists integration during the second quarter of 2002.

5 PRO FORMA RESULTS OF OPERATIONS (UNAUDITED)

On a pro forma basis, assuming (i) a full year of post-bankruptcy operating results for Regal Cinemas, United Artists and Edwards, (ii) the contribution by Anschutz and the exchange by several minority shareholders of their equity interests in United Artists, Edwards, Regal Cinemas, and Regal CineMedia for shares of the Company, (iii) the issuance of $350 million of $9^{3}/_{8}$% senior subordinated notes and (iv) the repayment of Edwards indebtedness and the effects of the Company's initial public offering, total revenues and net income would have been $2,266.4 million and $150.2 million and $2,013.5 million and $56.3 million for the year ended December 26, 2002 and the period ended January 3, 2002, respectively.

6 LONG-TERM OBLIGATIONS

Long-term obligations at December 26, 2002 and January 3, 2002, consist of the following:

	December 26, 2002	January 3, 2002
	(In millions)	
Regal Cinemas Senior Credit Facility	$ 219.4	$
Regal Cinemas $9^{3}/_{8}$% Senior Subordinated Notes	350.0	
United Artists Term Credit Facility		240.6
Edwards Senior Secured Term Loan		180.0
Edwards Subordinated Notes to Shareholders		10.3
Lease financing arrangements, 11.5%, maturing in various installments through 2021	97.8	

	December 26, 2002	January 3, 2002
Capital lease obligations	4.1	2.7
Other	7.1	5.3
United Artists Revolving Credit Facility		
Total long-term obligations	678.4	438.9
Less current maturities	(17.0)	(15.6)
Total long-term obligations, net	$ 661.4	$ 423.3

Regal Cinemas Senior Credit Facility Regal Cinemas entered into an amended and restated senior credit agreement with several financial institutions including Lehman Brothers, Inc., Credit Suisse First Boston Corporation, General Electric Capital Corporation and Lehman Commercial Paper, Inc., on August 12, 2002, amending its existing senior credit agreement to increase the amount available for borrowing under the senior secured revolving credit facility from $100 million to $145 million and to decrease the amount of the senior secured term loan from $270 million to $225 million. Under the amended and restated senior credit agreement, the lenders advanced Regal Cinemas $225.0 million through a senior secured term loan, which was used, together with cash on hand at Regal Cinemas, Inc., to repay in full its existing $270.0 million term loan. The amended and restated senior credit agreement also made available, subject to the satisfaction of conditions customary for extensions of credit of this type, an additional $145.0 million through a senior secured revolving credit facility. The $225.0 million term loan will amortize at a rate of 5% per annum until December 31, 2006, with the remaining 75% due in four installments ending on December 31, 2007. The senior secured revolving credit facility became available on August 12, 2002 and will be available until January 29, 2007. Regal Cinemas also maintains a letter of credit for $15.0 million related to its general unsecured claims as of December 26, 2002, which reduces the availability under its senior secured revolving credit facility to $130.0 million. As of December 26, 2002, there were no amounts outstanding on the senior secured revolving credit facility.

Borrowings under the term facility bear interest, at Regal Cinemas' option, at either the base rate or Eurodollar rate plus, in each case, an applicable margin, subject to adjustment based upon the consolidated total leverage ratio of Regal Cinemas. The base rate is a fluctuating interest rate equal to the higher of (a) the British Banking Association's prime rate or (b) the Federal Funds Effective Rate plus 0.5%. At December 26, 2002, the interest rate on the senior credit facility was approximately 4.6%.

Regal Cinemas may prepay borrowings under the amended and restated senior credit facility in whole or in part, in minimum amounts and subject to other conditions set forth in the amended and restated senior credit agreement. Regal Cinemas is required to make mandatory prepayments to the lenders from the net cash proceeds from asset sales and new debt issuances, in particular circumstances specified in the amended and restated senior credit agreement.

Regal Cinemas' obligations are secured by, among other things, the capital stock of most of its subsidiaries, mortgages on most of its properties and a security interest in substantially all of its assets.

The amended and restated senior credit agreement includes various financial covenants such as certain leverage and coverage ratios. The amended and restated senior credit agreement also contains customary covenants, including limitations on Regal Cinemas' ability to incur debt, and events of default, including a change of control, as defined in the amended and restated senior credit agreement. The amended and restated senior credit agreement also limits Regal Cinemas' ability to pay dividends, to make advances and otherwise to engage in intercompany transactions.

Regal Cinemas Senior Subordinated Notes On January 29, 2002, Regal Cinemas issued $200.0 million aggregate principal amount of $9^3/_8$% senior subordinated notes due 2012. Interest on the notes is payable semi-annually on February 1 and August 1 of each year, and the notes mature on February 1, 2012. The notes are guaranteed by most of Regal Cinemas' existing subsidiaries and are unsecured, ranking behind Regal Cinemas' obligations under its senior credit facility and any future senior indebtedness.

On April 17, 2002, Regal Cinemas sold an additional $150.0 million principal amount of $9^3/_8$% senior subordinated notes due 2012, which were issued under the indenture pursuant to which Regal Cinemas sold its senior subordinated notes in January 2002.

Regal Cinemas has the option to redeem the notes, in whole or in part, at any time on or after February 1, 2007 at redemption prices declining from 104.688% of their principal amount on February 1, 2007 to 100% of their principal amount on or after February 1, 2010, plus accrued interest. At any time on or prior to February 1, 2005, Regal Cinemas may also redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 109.375% of their principal amount, plus accrued interest, within 90 days of an underwritten public offering of common stock of Regal Cinemas or of a future underwritten public offering of the Company's common stock, the proceeds of which are used as a contribution to the equity of Regal Cinemas. Upon a change of control, as defined in the indenture pursuant to which the notes were issued, Regal Cinemas is required to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued interest. In addition, the indenture limits Regal Cinemas' and its subsidiaries' ability to, among other things, incur additional indebtedness and pay dividends on or repurchase capital stock.

United Artists Term Credit Facility As described in Note 1 "The Company and Basis of Presentation," the United Artists Term Credit Facility was repaid in connection with Regal's May 2002 initial public offering. The Company recorded an extraordinary loss of approximately $1.4 million as a result of the early redemption of the United Artists Term Credit Facility.

United Artists Revolving Credit Facility The $35.0 million United Artists Revolving Credit Facility (the "UA Revolver") was terminated during the third quarter of fiscal 2002.

Edwards Senior Term Loan and Subordinated Notes As described above, on April 17, 2002, Regal Cinemas sold $150 million principal amount of $9^3/_8$% senior subordinated notes due 2012. The proceeds of the notes, together with cash on hand at Regal Cinemas, Inc., were used to purchase Edwards from REH, which used the proceeds from the sale of Edwards to Regal Cinemas, Inc. to repay the Edwards term loan and Subordinated Notes. The Company recorded an extraordinary loss of approximately $1.3 million as a result of the early redemption of the Edwards Subordinated Notes.

Lease Financing Arrangements These obligations primarily represent capitalized lease obligations resulting from the requirements of Emerging Issues Task Force No. 97-10, *The Effect of Lessee Involvement in Asset Construction,* released in fiscal 1998.

Maturities of Long-Term Obligations The Company's long-term debt, capital lease obligations, and lease financing arrangements are scheduled to mature as follows:

	Long-Term Debt and Other	Capital Leases	Lease Financing Arrangements	Total
		(in millions)		
2003	$ 15.0	$ 0.2	$ 1.8	$ 17.0
2004	12.2	0.2	2.1	14.5
2005	12.3	0.2	2.6	15.1
2006	12.3	0.2	2.9	15.4
2007	173.8	0.2	3.4	177.4
Thereafter	350.9	3.1	85.0	439.0
Totals	$ 576.5	$ 4.1	$ 97.8	$ 678.4

7 SALE-LEASEBACK TRANSACTIONS

Regal Cinemas, Inc. Leveraged Sale and Leaseback

During 2000, Regal Cinemas, Inc. entered into a sale and leaseback transaction with an unaffiliated third party involving 15 of its owned theatres. Under the terms of this transaction, Regal Cinemas, Inc. sold the land and related improvements of the theatres for $45.2 million and leased them back for an initial lease term of 20 years, with an option to extend it for up to 20 additional years. Regal Cinemas accounts for these leases as operating leases.

United Artists Leveraged Sale and Leaseback

In December 1995, UATC entered into a sale and leaseback transaction whereby the land and buildings underlying 27 of its operating theatres and four theatres and a screen addition under development were sold to and leased back from an unaffiliated third party. The transaction requires UATC to lease the underlying theatres for a period of 21 years and one month, with the option to extend for up to an additional 10 years. In conjunction with the transaction, the buyer of the properties issued publicly traded pass-through certificates. Several of its properties included in the sale and leaseback transaction have been determined by UATC to be economically obsolete for theatre use. As of December 26, 2002, 27 theatres were subject to the sale leaseback transaction. UATC amended the lease on March 7, 2001 to allow UATC to terminate the master lease with respect to the obsolete properties, to allow the owner trustee to sell those properties and pay down the underlying debt (at a discount to par through September 2002 and par thereafter) and to reduce the amount of rent paid by UATC on the lease. Included in the 2001 amendment is a $35.0 million cap on the ability to sell properties. Through December 26, 2002 approximately $12.1 million of this cap has been utilized through theatre sales. Five additional properties are no longer operational and are being marketed for sale. An evaluation of the remaining theatres is performed on an ongoing basis. Approximately $87.5 million in principal amount of pass-through certificates were outstanding as of December 26, 2002.

In connection with the 1995 sale and leaseback transaction, UATC entered into a participation agreement that requires UATC to comply with various covenants, including limitations on indebtedness, restricted payments, transactions with affiliates, guarantees, issuances of preferred stock of subsidiaries and subsidiary distributions, transfer of assets and payment of dividends.

On November 8, 1996, UATC entered into a sale and leaseback transaction, pursuant to which UATC sold three of its operating theatres and two theatres under development to an unaffiliated third party for approximately $21.5 million and leased back those theatres pursuant to a lease that terminates in 2017. The lease provides UATC with an option to extend the term of the lease for an additional 10 years. Two of the theatres have been determined by UATC to be economically obsolete and are no longer in operation.

The UATC 1995 and 1996 sale and leaseback transactions resulted in UATC having two separate master lease agreements, each covering multiple properties. Each agreement provides for a single lease payment to be made to the landlord with respect to all of the properties subject to the respective master lease without regard to any lease rate that might otherwise be attributable to a specific leased property.

In connection with United Artists' adoption of fresh-start reporting upon its emergence from bankruptcy, United Artists and UATC assessed the lease payment obligations under the two master lease agreements and concluded that such aggregate obligations provided economically consistent returns on the underlying leased properties as compared with similar leased facilities. As such, the amount of rent currently being paid under the master lease agreements is substantially attributable to the value of the key theatres. Accordingly, the Company has accounted for the total rent paid under these agreements as expense and have included the future annual rental due under the master lease agreements in rent commitments (See Note 10 "Commitments and Contingencies").

In December 1997, UATC entered into a sale and leaseback transaction, pursuant to which UATC sold two theatres under development and leased them back from an unaffiliated third party for approximately $18.1 million. The lease has a term of 22 years with options to extend the term of the lease for an additional 10 years.

During 1999, UATC entered into a sale and leaseback transaction on one existing theatre. Proceeds were received in the amount of $5.4 million by UATC during 1999. The lease has a term of 20 years, with an option to extend the term of the lease for up to 20 additional years.

Edwards Leveraged Sale and Leaseback

During 1999, Edwards entered into four sale and leaseback transactions whereby Edwards sold four theatres and leased them back from an unaffiliated third party. The related leases are being accounted for as operating leases.

During 2000, Edwards entered into two sale leaseback transactions whereby Edwards sold two of its properties and leased them back from an unaffiliated third party. As part of these transactions, an additional location was sold with a portion of the building being leased back for corporate use. The related leases are being accounted for as operating leases.

8 INCOME TAXES

The components of total income tax expense (benefit) for the year ended December 26, 2002 and the period ended January 3, 2002 are as follows (in millions):

	Year ended December 26, 2002	Period ended January 3, 2002
Income before taxes and extraordinary items:	$ 89.8	$ 3.6
Tax benefit from exercise of options	(3.2)	
Extraordinary item	(1.0)	
Total	$ 85.6	$ 3.6

The components of the provision for (benefit from) income taxes for income from operations are as follows (in millions):

	Year ended December 26, 2002	Period ended January 3, 2002
Federal		
Current	$ 9.9	$ 5.4
Deferred	62.8	(2.2)
Total Federal	72.7	3.2
State		
Current	4.6	0.6
Deferred	12.5	(0.2)
Total State	17.1	0.4
Total income tax provision/(benefit)	$ 89.8	$ 3.6

A reconciliation of the provision for income taxes as reported and the amount computed by multiplying the income before taxes and extraordinary item by the U.S. federal statutory rate of 35% was as follows (in millions):

	Year ended December 26, 2002	Period ended January 3, 2002
Provision calculated at federal statutory income tax rate	$ 72.9	$ 2.3
State and local income taxes, net of federal benefit	11.1	0.2
Minority interest expense	4.8	
Reorganization costs	1.0	
Fresh start adjustments		0.7
Other		0.4
Total income tax provision	$ 89.8	$ 3.6

Significant components of the Company's net deferred tax liability consisted of the following at:

	December 26, 2002	January 3, 2002
	(in millions)	
Deferred tax assets		
Net operating loss carryforward	$ 39.6	$ 38.8
Excess of tax basis over book basis of intangible assets	27.0	12.5
Deferred rent	13.0	
Bankruptcy related liabilities	7.8	16.2
Deferred revenue	4.9	12.8
Other		9.4
Deferred gain on sale lease back		2.7
Accrued expenses		1.1
Impairment of long-lived assets		8.8
Excess of tax basis over book basis of fixed assets		8.3

	December 26, 2002	January 3, 2002
Total deferred tax assets	92.3	110.6
Valuation allowance	(59.4)	(100.3)
Total deferred tax assets after valuation allowance	32.9	10.3
Deferred tax liabilities		
Excess of book basis over tax basis of fixed assets	(46.0)	(13.0)
Other	(3.5)	(1.1)
Total deferred liabilities	(49.5)	(14.1)
Net deferred tax asset/(liability)	$ (16.6)	$ (3.8)

At December 26, 2002, the Company has net operating loss carryforwards for federal income tax purposes of approximately $99.1 million with expiration commencing during 2007. The Company's net operating loss carryforwards were generated by the entities of United Artists and Edwards. The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of net operating losses in the event of an "ownership change" of a corporation. Accordingly, the Company's ability to utilize the net operating losses acquired from United Artists and Edwards may be impaired as a result of the "ownership change" limitations.

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible.

The Company has recorded a valuation allowance against deferred tax assets at December 26, 2002 and January 3, 2002, totaling $59.4 million and $100.3 million, respectively, as management believes it is more likely than not that the deferred tax asset would not be realized in future tax periods. As of January 3, 2002, Edwards had recorded a valuation allowance against deferred tax assets in the amount of $34.1 million. On April 17, 2002, Edwards became a subsidiary of Regal Cinemas, and it became a member of the group of corporations that join with us in the filing of a consolidated federal income tax return. On the consolidated tax returns, deferred tax assets of Edwards will be available to offset the future reversal of taxable temporary differences and future taxable earnings of other members of our consolidated group. As a result, we determined that it became more likely than not that certain deferred tax assets of Edwards would be realized in future periods. Accordingly, the Company reduced the valuation allowance against Edwards' deferred tax assets in the amount of approximately $27.9 million. The reduction in valuation allowance reduced goodwill from the Edwards purchase. As of January 3, 2002, United Artists had recorded a valuation allowance against deferred tax assets in the amount of $66.2 million. On its tax returns for the year ended December 26, 2002, United Artists recognized deferred tax assets through the reversal of deductible temporary differences and utilized those deferred tax assets to offset taxable income generated in 2002. As a result, the Company reduced the valuation allowance against United Artists deferred tax assets by approximately $13 million. The reduction in valuation allowance was supplied to reduce goodwill related to the acquisition of United Artists. Future reductions in the valuation allowance will reduce goodwill related to the acquisitions of Edwards and United Artists.

9 MANDATORY REDEEMABLE PREFERRED STOCK

Prior to April 17, 2002, Edwards had authorized and issued 56,000 shares (44,000 shares to Anschutz and 12,000 shares to Oaktree's Principal Activities Group) of $0.001 par value, mandatory redeemable Series A preferred stock and 15,000 shares of Edwards' mandatory redeemable Series B preferred stock, $0.001 par value, to three other shareholders.

As described in Note 1 "The Company and Basis of Presentation" and Note 12 "Related Party Transactions," on April 17, 2002, the Company redeemed approximately $75.3 million or 100% of the mandatory redeemable Series A and Series B preferred stock of Edwards that was held by Anschutz, Oaktree's Principal Activities Group and members of the Edwards family. The difference between the carrying amount and redemption price of $28.2 million was recorded as a charge to equity and is reflected as a reduction of net income available to common stockholders in the accompanying consolidated statement of operations for the year ended December 26, 2002.

10 COMMITMENTS AND CONTINGENCIES

Leases

The Company accounts for a majority of its leases as operating leases. The Company, at its option, can renew a substantial portion of the leases at defined or then fair rental rates for various periods. Certain leases for Company theatres provide for contingent rentals based on the revenue results of the underlying theatre and require the payment of taxes, insurance, and other costs applicable to the property. Also, certain leases contain escalating minimum rental provisions that have been accounted for on a straight-line basis over the initial term of the leases. Minimum rentals payable under all non-cancelable operating leases with terms in excess of one year as of December 26, 2002, are summarized for the following fiscal years (in thousands):

2003	$	221.4
2004		217.7
2005		214.7
2006		212.8
2007		210.9
Thereafter		2,290.4

Rent expense under such operating leases amounted to $231.0 million and $84.5 million for the year ended December 26, 2002 and the period ended January 3, 2002, respectively. Contingent rent expense was $13.6 million and $3.5million for the years ended December 26, 2002 and January 3, 2002, respectively.

Bankruptcy Claims

Regal Cinemas, Inc. and Edwards have bankruptcy claims that remain unsettled and are subject to ongoing negotiation and possible litigation. At December 26, 2002, Regal Cinemas had accrued approximately $23.6 million for the estimated costs to resolve such bankruptcy claims. In the opinion of management, based on its examination of these matters, its experience to date and discussions with legal counsel, the outcome of these legal matters, after taking into consideration the amounts already accrued, is not expected to have a material effect on the Company's liquidity or results of operations. To the extent the Regal Cinemas claims are allowed by the bankruptcy court, they will be funded with cash on hand, cash flow from operations or borrowings under Regal Cinemas revolving credit facility. To the extent the Edwards claims are allowed by the bankruptcy court, they will be funded from restricted cash that has been set aside, cash on hand, cash from operations and, if the allowed claims exceed $55 million, from contributions by Anschutz and Oaktree's Principal Activities Group. The timing of these claims will depend upon the resolution of these claims. See also Note 3 "Chapter 11 Proceedings" and Note 12 "Related Party Transactions" to the accompanying consolidated financial statements.

Other

Regal Cinemas, Inc., Edwards and United Artists are defendants in a number of claims arising from their decision to file voluntary petitions for relief under Chapter 11 and to close theatre locations or to cease construction of theatres on sites for which such entities had contractual obligations to lease such property. The Company and its subsidiaries are also presently involved in various legal proceedings arising in the ordinary course of its business operations, including personal injury claims, employment and contractual matters and other disputes. The Company believes it has adequately provided for the settlement of such matters. Management believes any additional liability with respect to the above proceedings will not be material in the aggregate to the Company's consolidated financial position, results of operations or cash flows.

On March 18, 2003, Reading International, Inc., Citadel Cinemas, Inc. and Sutton Hill Capital, LLC (collectively, the "Plaintiffs") filed a complaint and demand for jury trial in the United States District Court for the Southern District of New York against Oaktree Capital Management LLC, Onex Corporation, Regal, United Artists, United Artists Theatre Circuit, Inc., Loews Cineplex Entertainment Corporation, Columbia Pictures Industries, Inc., The Walt Disney Company, Universal Studios, Inc., Paramount Pictures Corporation, Metro-Goldwyn-Mayer Distribution Company, Fox Entertainment Group, Inc., Dreamworks LLC, Stephen Kaplan and Bruce Karsh (collectively, the "Defendants") alleging various violations by the Defendants of federal and state antitrust laws and New York common law. The Plaintiffs allege, among other things, that the consolidation of the theatre industry has adversely impacted their ability to release first-run industry-anticipated top-grossing commercial films, and are seeking, among other things, a declaration that the Defendants' conduct is in violation of antitrust laws, damages, and equitable relief enjoining Defendants from engaging in future anticompetitive conduct. Management believes that the allegations are without merit and intends to defend vigorously the Plaintiffs' claims.

11 CAPITAL STOCK AND STOCK OPTION PLAN

As of December 26, 2002, the Company's authorized capital stock consisted of:

500,000,000 shares of Class A common stock, par value $0.001 per share;

200,000,000 shares of Class B common stock, par value $0.001 per share; and

50,000,000 shares of preferred stock, par value $0.001 per share.

Of the authorized shares of Class A common stock, 18,000,000 shares were offered in connection with the Company's initial public offering in May 2002. The Company's Class A common stock is listed on the New York Stock Exchange under the trading symbol "RGC." As of December 26, 2002, 46,448,382 shares of Class A common stock were outstanding. Of the authorized shares of Class B common stock, 85,287,957 shares were outstanding as of December 26, 2002, all of which are held by Anschutz and Oaktree's Principal Activities Group. Of the authorized shares of the preferred stock, no shares are issued and outstanding as of December 26, 2002. The material terms and provisions of the Company's certificate of incorporation affecting the relative rights of the Class A common stock and the Class B common stock are described below.

Common Stock

The Class A common stock and the Class B common stock are identical in all respects, except with respect to voting and except that each share of Class B common stock will convert into one share of Class A common stock at the option of the holder or upon a transfer of the holder's Class B common stock, other than to certain transferees. Each holder of Class A common stock will be entitled to one vote for each outstanding share of Class A common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. Each holder of Class B common stock will be entitled to ten votes for each outstanding share of Class B common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. Except as required by law, the Class A common stock and the Class B common stock will vote together on all matters. Subject to the dividend rights of holders of any outstanding preferred stock, holders of common stock are entitled to any dividend declared by the board of directors out of funds legally available for this purpose, and, subject to the liquidation preferences of any outstanding preferred stock, holders of common stock are entitled to receive, on a pro rata basis, all the Company's remaining assets available for distribution to the stockholders in the event of the Company's liquidation, dissolution or winding up. No dividend can be declared on the Class A or Class B common stock unless at the same time an equal dividend is paid on each share of Class B or Class A common stock, as the case may be. Dividends paid in shares of common stock must be paid, with respect to a particular class of common stock, in shares of that class. Holders of common stock do not have any preemptive right to become subscribers or purchasers of additional shares of any class of the Company's capital stock. The outstanding shares of common stock are, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock may be adversely affected by the rights of the holders of shares of any series of preferred stock that the Company may designate and issue in the future.

Preferred Stock

The Company's certificate of incorporation allows us to issue without stockholder approval preferred stock having rights senior to those of the common stock. As of December 26, 2002, no shares of preferred stock are outstanding. The Company's board of directors is authorized, without further stockholder approval, to issue up to 50,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions of any series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, and to fix the number of shares constituting any series and the designations of these series. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of common stock. The issuance of preferred stock could also have the effect of decreasing the market price of the Class A common stock.

Options and Warrants

See "2002 Stock Incentive Plan" below for detail with respect to the Company's stock option plan. At December 26, 2002 Company had outstanding warrants to purchase a total of 296,129 shares of Class A common stock and 3,928,185 shares of Class B common stock at an exercise price of $8.88 per share.

2002 Stock Incentive Plan

In 2002, the Company established the 2002 Stock Incentive Plan (the "Plan") for a total of 11,194,354 authorized shares which provide for the granting of incentive stock options and non-qualified stock options to principally officers and employees of the Company. The Plan also provides for grants of restricted stock that are subject to restrictions and risks of forfeiture. As of December 26, 2002, the Company had outstanding options to purchase a total of 9,255,157 shares of Class A common stock under the Plan. As of December 26, 2002, the number of securities remaining available for future issuance under the Plan totaled 1,014,390 shares.

In conjunction with the exchange transaction on April 12, 2002 (see Note 1 "The Company and Basis of Presentation"), the holders of outstanding options of United Artists and Regal Cinemas received replacement options to purchase 8,832,147 shares of Regal Class A common stock at prices ranging from $4.44 to $12.87 per share. As a result, stock option information presented herein prior to the exchange of options has been retroactively restated to reflect the effects of the exchange transaction. Deferred stock compensation totaling approximately $22.9 million was recorded based on the intrinsic value of the options exchanged using the value of the exchange transaction ($11.06 per share). Such options are generally exercisable in installments of 20% per year from the original grant date of the exchanged options and expire no later than 10 years from the date of grant. For the period from April 12, 2002 through December 26, 2002, the Company recorded compensation expense of $1.7 million, net of tax, related to such options.

Stock option grants issued subsequent to the exchange transaction have been established at prices not less than the fair market value as of the date of grant. Such grants are exercisable in installments of 20% per year and expire no later than 10 years from the date of grant.

The following table summarizes information about stock options outstanding as of December 26, 2002, as restated for the effects of the exchange transaction:

	Options Outstanding	Weighted Average Exercise Shares Price	Weighted Average Grant Date Fair Value	Options Exercisable At Year End
Under option at March 2, 2001				
Options granted in 2001 at fair value	2,287,552	$ 5.37	$ 5.81	
Options exercised in 2001				
Options canceled or redeemed in 2001				